ECONOMIC HANDBOOKS

ECONOMIC CONSEQUENCES OF THE PARTITION

by

C. N. VAKIL

University Professor of Economics, Bombay.

THE NATIONAL INFORMATION & PUBLICATIONS LTD

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The object of this book is to present in a brief form the major tendencies likely to arise in the economic sphere as a consequence of the partition of the country. This book will enable the average citizen to have all the essential facts on the subject in an easily understandable form so that he can form his own judgment on any economic problem arising out of the partition. It will thus help in removing the prevailing confusion and misunderstanding on this problem in the public mind. The book will be of invaluable help in grasping a current problem of vital importance both to the student of economics as well as the average citizen. The author has presented his material in non-technical language as far as possible, making it easy for the layman to take interest in a problem which should be the concern of all.

The main conclusion of the book is that the two Dominions are economically interdependent, requiring an agreed economic policy and a common Customs Union in mutual interest. The author feels that such a policy ought to have been a part of the Financial Agreement recently made with Pakistan, whose economic implications have been analysed in a manner, which will serve as an eye-opener to many.

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PREFACE

THE SERIES

The object of these handbooks is to present in a simple manner different economic problems relating to India as well as those in which India is likely to be interested. The Series will aim at covering the entire range of economic problems in course of time. Special attention will be given as far as possible to current topics. The treatment will be scientific, and each handbook will be written by a person who has specialised in the particular subject and will, therefore, be authoritative. The exposition will be such that it may be easy for the layman to understand the problem. The Series will thus stimulate interest in the complex and changing economic problems of the country and promote better understanding of the same. The need for an intelligent appreciation of such problems by the public under the new political conditions in the country is obvious, and it is hoped that this Series will supply the want.

THE HANDBOOK

Since the partition, discussions have taken place in the Press and elsewhere regarding its effects on the economic life of the people. Statistics are sometimes used without an attempt at proper interpretation leading to rather incorrect notions about some aspects of the problem. Some newspapers and journals have used figures hastily collected ; in some cases they have not conveyed the true position.

There are inherent difficulties in the problem as the necessary data are not available. In some cases, estimates have to be made ; in others, inferences may have to be drawn. The layman is likely to go away with the impression that a statement made in a statistical form is concrete and exact,

though it may be far from the truth, if the person making use of the figures has not been careful in presenting it properly.

With a view to solving some of these difficulties regarding the problem, and providing a basis for research workers in different economic subjects in this School, a group study was organised almost from the day partition was announced. About twelve senior research students, including some members of the staff such as Research Assistants and Investigators in Agricultural Economics took part in the work. Frequent discussions were held by me to give guidance to the workers at which my colleagues in the Economics Department of the School took an active part. Out of the mass of material thus collected, it was felt that it would be useful if the main facts were made available in an abstract form to the public with the necessary comments. This book was planned to carry out this idea. While the book was at its final stages, the Financial Agreement with Pakistan was announced; this has been made use of in appropriate places and its implications have been discussed in brief in chapter IX.

No finality is claimed for the data; what is claimed is that all reasonable care has been taken to collect the available facts and present them in an unbiassed way. It is possible that in the light of data which may be made available hereafter, changes may have to be made in some respects. But it is submitted that the broad tendencies pictured in this book are likely to be correct and may be taken as a safe guide. Detailed references to the sources of statistics used or the methods employed in making estimates, where necessary, are not given in the text, unless absolutely necessary. A note on statistics has been given at the end in which those who want to follow up the material will find the relevant information.

Thanks are due to the several research workers who have made it possible for me to bring this material together. Mention may be made in particular of the help received by me from Mr. S. A. Pandit, Lecturer in Economics; Mr. T. M. Desai, Research Assistant and Mr. V. R. Cirvante, Sir Dinshaw Wachha Research Fellow—all of whom have rendered

substantial help in the preparation of this book. I alone am however responsible for the opinions expressed in the book. Mr. Desai has also helped in seeing the book through the press.

School of Economics & Sociology,
University of Bombay,
3rd January 1948.

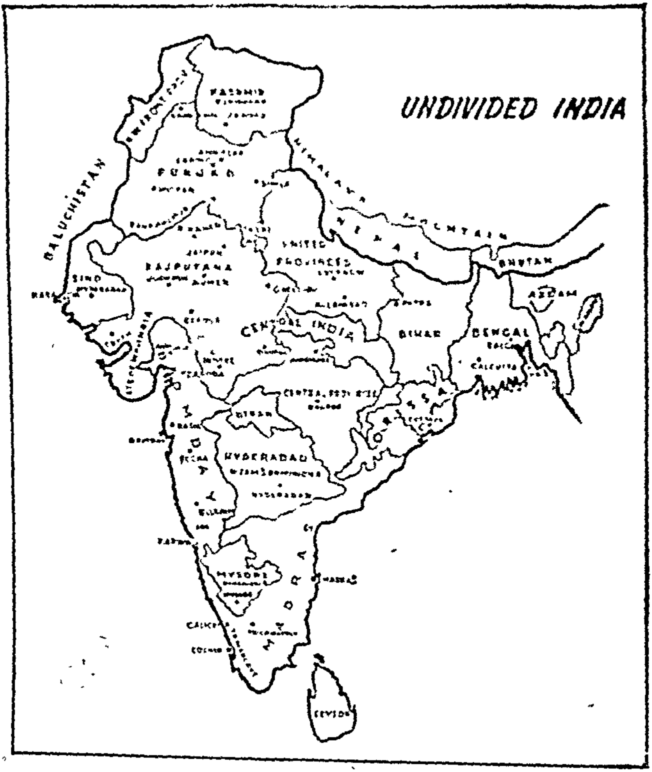
C. N. VAKIL.

POSTSCRIPT

In spite of all efforts to publish this Handbook well in advance of the presentation of the Central Budget for 1948-49, *I regret that abnormal delays in the press did not make it possible to do so. It would be appropriate to draw attention to some of the features and estimates of the budget so that the data presented here may be upto date and the estimates made by us may be verified. We have therefore added a brief postscript at the end, in which the new data are summarised under the relevant chapter headings, so that the reader may look to the relevant portion for the latest details. We are glad to be able to say that the main tendencies as indicated in this Handbook do not require any modification.*

3rd March 1948.

C. N. VAKIL.



UNDIVIDED INDIA
KASHMIR
PUNJAB
BALUCHISTAN
SIND
RAJPUTANA
UNITED PROVINCES
CENTRAL INDIA
BIHAR
BENGAL
ASSAM
BHUTAN
HYDERABAD
MYSORE
CEYLON

CONTENTS

ECONOMIC CONSEQUENCES OF THE PARTITION

INTRODUCTION

The Object

The object of this book is to discuss the economic effects of the partition of the country as briefly as possible so that the layman may be in a position to follow with interest the developments in the two Dominions in the economic sphere. The subject is obviously wide and has unlimited scope for intensive research. Whereas intensive studies on different aspects of economic life as affected by the partition are desirable, the layman would prefer to have the essentials in a brief and simple form, as an intelligent guide to current events. Such guidance should be as authoritative as possible, so that the layman may not be led astray by one-sided emphasis on certain aspects of a given problem, which are inevitable in journalistic writings or in the hasty pronouncements of some politicians.

Statistical Material

In any discussion of a problem of this nature, the use of statistics is essential. Whereas the average reader is somewhat averse to statistics, it is expected that he would like to have as concrete a picture as possible of the effects of partition on different aspects of economic life. With this end in view, the available statistical material has been digested and put in an abstract form easy for the average reader to comprehend. The more careful reader will find enough indications both in the body of the book as well as in the appendices to follow up the material in greater detail, if he so chooses.

The Next Decade

The material presented in this book thus indicates the more general tendencies in the economic structure of the two Domi-

nions after the partition. In discussing this material it has been assumed that there will not be any material change in the equipment and resources of the two Dominions for some years to come. Though some changes are inevitable, we have to be conscious of the fact that dynamic changes in the economic sphere are likely to take some time under the existing circumstances. Both the Dominions will have to be busy in the first instance in the maintenance of law and order. Both will have problems of defence as well as of refugees. The resources for further economic development will be limited for either Dominion, more so for Pakistan as will be seen in the appropriate place. The implementation of the various schemes of economic development will have to be slow, partly because of the difficulty of financing them and more so because of the difficulty of obtaining capital goods from abroad in the near future. Schemes for nation-building activities, such as for education and health may have to be slowed down, because of the limited revenue resources under the new conditions. Ordinarily, such schemes are not financed from loans as they are not directly remunerative. If the same principle is adopted, which is not unlikely, progress will be limited, because adequate revenue surpluses will not be available for some time to come for rapid progress in these directions. These difficulties are relatively much greater in the case of Pakistan than in the case of the Indian Union. In view of these factors, we may assume that the economic condition of the two Dominions as created by the partition, will not materially change during the next 5 or 10 years, though preparations for such a change may be made during the same period. The general conclusion reached in the body of the book regarding the economic inter-dependence of the two Dominions is therefore likely to remain substantially true during the next decade.

IN THE LONG RUN

The natural ambition of each Dominion to develop its resources both agricultural and industrial, and to achieve a

larger measure of economic prosperity, thereby raising the standard of life of its people is bound to assert itself in due course. Pakistan will certainly try to develop some of its industries. India will also try to develop its industries further, and see that its agriculture is made more prosperous with the help of irrigation schemes as well as by other methods. When these schemes materialise leading to changes in production of different commodities in the two Dominions, there is bound to be a change in the economic relations between the two Dominions. But it is not correct to assume that in the event of such changes each Dominion will be independent of the other. Such changes will result in a shift in trade. For example, if one Dominion is able to meet its own requirements in one direction, it will probably have greater need for some other commodity in another direction. The economic history of the world teaches one important lesson that with the economic progress of different countries, trade between them increases instead of diminishing. Though it is impossible for us to forecast the future trend of events we are right in concluding that in future when both Dominions advance economically there will be new bonds and new economic relations. This is as it should be between neighbours.

Agreed Economic Policy

If this general idea is accepted, it would be easy to appreciate the need for an agreed economic policy between the two Dominions now and in future. Such an economic policy may have to be changed by mutual agreement from time to time as circumstances change. It is true that even in the immediate future there is a conflict of interests. For example, the question may be raised as to why should Pakistan have the same customs duties as the Indian Dominion, in the case of those articles on which the Indian Dominion may have protective duties ? While such instances indicate the divergence of needs, it is not impossible to reconcile them by mutual agreement. Under the schemes of planning, developed by the

Government of India a few years ago for Undivided India, regional development of industries was the principal aim. This meant that further industrialisation in the country should aim at locating industries in those areas which were hitherto industrially backward. If what was contemplated when India was undivided, could be carried out in the two Dominions as now constituted, the progress of both could be assured. It is true that such an effort presupposes a spirit of mutual accommodation, mutual trust and the willingness to help each other.

Economic Warfare

In view of the prevailing political tension in the country and the atmosphere of communal bitterness as well as increasing mistrust, we must admit that the relations between the two Dominions are unfortunately in an unhappy state of affairs. This is obviously not likely to foster the evolution of that economic policy which is likely to help both the parties. We may however hope for the best inasmuch as the fundamental economic forces in the two Dominions are likely to work in the direction of mutual inter-dependence and co-operation. If however, in spite of ourselves, the political forces predominate in such a manner that each Dominion may follow a diverse economic policy and even adopt an attitude of economic hostility to the other, we may be faced with a situation of an entirely different nature. The facts here presented will be useful to the average citizen in such an unfortunate contingency, which may be described as a state of economic warfare, enabling him to follow the new trend of events which might develop under such a state of affairs. In the matter of defence, modern Governments have to remain prepared for unexpected contingencies. It is a part of modern defence arrangements for Governments to be ready with economic weapons in case they are forced into a state of economic warfare. This presupposes a detailed examination of possible lines of attack in the economic sphere by other parties, and

the possible countermoves which may be adopted to offset such attacks or to take the offensive in case of need with a view to an early termination of such warfare. Such detailed examination of economic forces would require the active help of trained economists on the one hand, and of experienced businessmen on the other, as the politician and administrator are not likely to possess the necessary equipment for the purpose. Though we may cherish the hope that it may not be necessary for us to use economic weapons either for attack or for defence, it would be unwise not to be prepared with our economic armoury under the present state of affairs.

I. POPULATION AND AREA

According to the census of 1941 the total population of India was 389 millions. Ignoring the changes since 1941 the population, area and density of population in the two Dominions and Hyderabad and Kashmir are as under :—

Table 1. Population, area and density of population, 1941

	Population (millions)	Percentage of total population	Area (in thousands of sq. miles)	Percentage of total area	Density (persons per sq. mile)
Indian Union :					
Provinces ...	230	57.8	6,27	40.1	368
States ...	68	17.6	4,18	26.5	167
Total ...	298	75.4	10,45	66.6	535
Pakistan :					
Provinces ...	66	16.9	2,36	14.9	280
States ...	5	2.6	1,29	8.1	37
Total ...	71	19.5	3,65	23.0	317
Hyderabad ...	16	4.1	82	5.2	198
Kashmir ...	4	1.0	82	5.2	49
All India Total ...	389	100	15,74	100	247

The above table shows that three-fourths of the entire population of the country is in the Indian Union, which covers only two-thirds of the entire area. Pakistan has 19.5% of the total population, with 23% of the total area. Both Hyderabad and Kashmir have approximately equal area, a little more than 5% of the total in each case. The population of Hyderabad is however much larger, viz., 16 millions

as against 4 millions of Kashmir. These figures are reflected in the density of the population in different units. The Indian Union has a density of 299 per sq. mile; the density of population in Pakistan is 195, in Hyderabad 198 and Kashmir 49.

Western and Eastern Pakistan

The density of population in Pakistan as a whole does not bring out clearly the pressure of population in different parts of Pakistan. Nearly 64% of the total population of Pakistan is concentrated in East Bengal, which accounts for only 25% of the total area of Pakistan. The density of population in East Pakistan is as high as 718 as against 136 in Western Pakistan.

In current discussions regarding Pakistan people often have only Western Pakistan in view. This is due to the fact that Western Pakistan is more advantageously situated in some respects than its Eastern counterpart. Besides, it consists of a compact area thrice as large as Eastern Pakistan, with natural boundaries which have hitherto formed the land frontiers of India. The capital of Pakistan is also located in Western Pakistan. Whereas these factors account for the importance of Western Pakistan, one has to remember the fact that as much as two-thirds of the population of Pakistan is concentrated in East Bengal, which is completely encircled by the territory of the Indian Union. This feature of Pakistan and the fact that it is divided into two separate regions with a distance of more than a thousand miles between them is not fully appreciated. Communication between the two units of Pakistan is not easy. The sea route would involve a voyage between Karachi and Chittagong, via Cape Camorin. The journey by land is possible only across the territory belonging to the Indian Union. Even for air journey it will be necessary for Pakistan Air Services to fly over the territory of the Indian Union.

THE STATES

Table 1 further shows that the problem of the States is negligible in Pakistan. The Pakistan States account for a very small proportion of the population and area of Pakistan. On the other hand, in the Indian Union, the States cover about 40% of the total area and have 23% of the entire population. With a large number of States, some of them very small and most of them economically and politically backward as compared to provinces, the problem of the States has assumed great importance in the Indian Union. This problem has been further complicated by the attitude of certain States like Hyderabad and Junagadh, which although geographically contiguous to the Indian Union have not acceded to it. The recent developments in Junagadh have however, practically brought that State into the Indian Union. The attitude of Hyderabad is not yet clear and one has to await developments, though by virtue of the Standstill Agreement it has common economic arrangements with the Indian Union. Kashmir on the other hand borders both on Pakistan and the Indian Union. Its frontiers with Pakistan are much longer than those with the Indian Union. Recent developments in Kashmir have created a problem which the people will have to decide as soon as possible, whether Kashmir should be a part of the Indian Union or of Pakistan.

URBAN AND RURAL POPULATION

The growth of urban population is an indication of the development of trade and industries. According to the 1941 census, Undivided India had 339.6 millions of rural population and 49.4 millions of urban population. The distribution of the population in the two Dominions is indicated below :—

Table 2. Urban and Rural Population, 1941

	URBAN		RURAL	
	Population (millions)	Percentage of total	Population (millions)	Percentage of total
Dominion of India ...	41.0	14	257.0	86
Pakistan ...	5.9	8	65.1	92
Hyderabad and Kashmir ...	2.5	13	17.5	87

It will be seen from the above table that the urban population constitutes 14% of the total population in the Indian Union as against 8% in Pakistan. In Hyderabad and Kashmir taken together, the urban population is 13% of the total. This indicates that the development of industries and commerce is relatively greater in the Indian Union as well as in Hyderabad and Kashmir as compared with Pakistan. Pakistan has of course some large cities like Lahore and Karachi, but they are not on a footing with Bombay, Calcutta and Madras.

THE MINORITY PROBLEM

The political division of the country has not completely solved the thorny problem of communal minorities in either Dominion. According to the census of 1941, the communal composition of the population was as shown in the following table.

Table 3. Communal Distribution of Population, 1941

	Muslims (millions)	Non-Muslims (millions)	Muslim percentage of total	Non-Muslim percentage of total
Indian Union...	36.8	261.9	12.3	87.7
Pakistan ...	51.4	19.6	73.1	26.9
Hyderabad ..	2.1	14.2	12.2	87.8
Kashmir ...	3.1	0.9	77.5	22.5

According to the above table there were more than 19 million non-Muslims in Pakistan. As a result of the Punjab disturbances, exchange of population on a mass scale has taken place. It is officially estimated that 5 million non-Muslims from West Pakistan have migrated to the Indian Union and an equal number of Muslims have gone over from India to Pakistan. This still leaves about 32 million Muslims in India and nearly 15 million non-Muslims in Pakistan. A successful solution of the minority problem would involve a complete exchange of the minorities in the two Dominions. Pakistan however is not likely to agree to this because it involves a net immigration of over 17 million persons into its territory. It may be noted however that the population of Western Pakistan is now predominantly Muslim. There is a tendency for the remaining Hindus and Sikhs in Western Pakistan to migrate to the Indian Union as they find that it is difficult to live in Pakistan in safety and with self-respect. Similarly, the population of East Punjab will be predominantly Hindu and Sikh.

II. NATURAL RESOURCES

(A) AGRICULTURE AND LIVESTOCK

Land Utilisation

For a predominantly agricultural country like ours, the way in which land is utilised reflects the economic condition of the country to a great extent. In 1938-39 out of 663 million acres of land in the country as a whole 338 million acres or about 49% was cultivated, the remaining was uncultivated. The way in which the partition of the country has affected the problem of land utilisation is indicated in Table 4.

Whereas in the Indian Union the area of cultivated land is almost the same as that of uncultivated land, in Pakistan the uncultivated portion is larger than the cultivated one. In Hyderabad the cultivated area is much greater than the uncultivated area. The proportion of the net sown area to the total area is slightly higher in the Indian Union compared with Pakistan, though it is the highest in Hyderabad. The per capita sown area is .75 acre in the Indian Union and .64 acre in Pakistan. The per capita sown area in Western Pakistan is .85 acre whereas in Eastern Pakistan it is .42. 15% of the total area of the Indian Union is under forests as against 5% in Pakistan. This is so because 85% of the area under forests of Undivided India is in the Indian Union. It may also be noted that Pakistan has a larger proportion of area not available for cultivation than India. It appears from these indices that India is somewhat better off than Pakistan so far as the utilisation of land is concerned.

Irrigation

But the picture changes when we take into account the irrigation facilities in the two Dominions.

Table 4. Land Utilisation, 1938-39

CLASSIFICATION OF AREA	INDIAN UNION		PAKISTAN		HYDERABAD	KASHMIR	ALL-INDIA
	Million acres	% of total	Million acres	% of total	Million acres	Million acres	Total Millions
Net sown	204	42	43	37	27	2	277
Current fallow	47	9	11	9	3	0 3	61
TOTAL CULTIVATED ...	251	51	54	46	30	2.3	338
Forests	74	15	5	5	6	2	87
Not available for cultivation	80	16	30	25	10	3	123
Other uncultivated land ...	86	18	26	23	2	1	115
TOTAL UNCULTIVATED ...	240	49	61	54	18	6	325
TOTAL LAND	491	100	115	100	48	8.3	663

Table 5. *Area Under Irrigation*, 1938-39

	Cultivated area (Million acres)	Irrigated area (Million acres)	Percentage of Irrigated to Cultivated area
India ...	251	47	18
Pakistan ...	54	20	36
Hyderabad ...	30	2	7
Kashmir ...	2.3	1	4
Total ...	338	70	21

Most of the important irrigation works are located in West Punjab and Sind. In consequence Pakistan has 28% of the total irrigated area of the entire country though its share in the cultivated area is only 13%. In other words 36% of Pakistan's cultivated area has the advantage of irrigation whereas in the Indian Union only 18% of the cultivated area has a similar advantage. The share of East Pakistan however, in the total area under irrigation in Pakistan is only 15% which means that most of the irrigated area in Pakistan is concentrated in the Western Unit.

Agricultural Production

We shall divide agricultural production into: (1) food crops and (2) non-food crops. The following table shows acreage under food, non-food and other crops in the different units in the year 1939-40.

Table 6. *Area under Food and Non-food crops*, 1939-40

(in million acres)

	Indian Union	Pakistan	Hyderabad	Kashmir	All-India
Food crops ...	183 6	37.7	19	2.3	242.6
Non-food crops ...	41.5	9	8.4	0.2	59.1
Others ...	10	2.3	0.2	0.1	12.6
Total crops ...	235.1	49.0	27.6	2.6	314.3
Percentage of area under food crops to total ...	78	77	69	90	75

FOOD CROPS

The per capita acreage under food crops in each of the units is as under :—

Indian Union	0.61 acre
Pakistan	0.54 ,,
Hyderabad	1.17 ,,
Kashmir	0.57 ,,

The nominal advantage indicated by the above figures in the case of the Indian Union is, however, more than offset by greater irrigation facilities in Pakistan. The cultivator in Pakistan has greater scope of reaping more, than one crop every year from the same piece of land. The yield of crops is also higher than in the Indian Union. Western Pakistan is particularly favourably situated in respect of food production. An examination of the outturn of crops in regard to wheat, rice, and sugarcane will bring out the relative position

more effectively. The following table gives the area and yield of wheat and rice.

Table 7. Area and Yield of Wheat and Rice, 1939-40

	AREA (million acres)		YIELD (million tons)	
	Wheat	Rice	Wheat	Rice
Indian Union ...	18.1	51.1	5.1	16.5
W. Pakistan ...	8.7	1.7	2.8	0.7
E. " ...	negligible	16.9	negligible	5.7
Total Pakistan ...	8.7	18.6	2.8	6.4
All India (excluding States) ...	26.8	69.9	7.9	22.9

(*Note*: The figures regarding the States are not included as the relevant details are not available.)

Wheat: From the above table it appears that the Indian Union has two-thirds of the total area under wheat and Pakistan one-third. India accounts for 65% of the total yield of wheat and Pakistan 35%. It should be noted that wheat production in Pakistan is concentrated in the Western Unit which has a surplus of wheat. For 1944-45 the Food Department estimated the wheat surplus of Pakistan at 443,000 tons, the Western zone having a surplus of 620,000 tons as against a deficit of 177,000 tons in the Eastern zone.

Rice: Three-fourths of the area under rice is in the Indian Dominion and one-fourth in Pakistan. 85% of the rice acreage of Pakistan is concentrated in East Bengal. 27% of the yield

take the necessary schemes. Some relief can be obtained by the diversion of land under non-food crops to food crops. It should however be remembered that the area under food-crops has already a predominant position in both the Dominions. Non-food crops cover about one-fifth of the total cultivated area in each Dominion. The effects of a large diversion of land from non-food crops to food crops on trade in raw materials and on industries like cotton and jute will have to be taken into account. Some attempts were made during the war to increase food production by such diversion, but the results have not been satisfactory.

NON-FOOD CROPS

Among the more important non-food crops we may mention cotton, jute, tea, coffee, tobacco and oilseeds.

Table 8 gives the estimated acreage and yield of cotton by varieties in the Pakistan Provinces and in the Indian Union for the years 1939-40, 1944-45 and 1945-46.

It is obvious from the table that the yield per acre in Pakistan is greater than that in the Indian Union. This is because in the Punjab and Sind cotton is largely grown with the help of irrigation. The table also shows that the area under cotton has not been much reduced in Pakistan as has been the case in the Indian Union because of the Grow More Food Campaign. The table further shows that West Punjab and Sind grow a large quantity of long staple cotton of the American variety. Out of a total production of 1 million bales of long staple cotton in Pakistan about 8 lakhs bales are consumed by the Indian mills and the rest is exported. In the chapter on Trade Between India and Pakistan we shall deal with the importance of Pakistan cotton to Indian Mills and the dependence of Pakistan on cloth from the Indian Union.

Jute: The production of raw jute is a monopoly of our country as practically the whole of the world crop is grown

Table 8. *Estimated Area and Yield of Cotton (in thousands)*

	ACREAGE			YIELD (in bales of 400 lbs.)		
	1939-40	1944-45	1945-46	1939-40	1944-45	1945-46
W. Punjab						
Punjab Deshi ...	1400	900	650	721	370	310
" American ...	1700	1500	1881	601	750	630
Sind						
Sind Deshi ...	229	61	117	63	23	53
" American ...	653	815	750	251	568	319
Bengal	50	100	35	27	23	23
N.W.F.P.	10	13	13	3	1	1
TOTAL PAKISTAN ...	4160	3430	3715	1733	1768	[illegible]
" INDIAN UNION ...	17477	11031	10765	3366	1570	2111
GRAND TOTAL ...	21530	14343	14480	4999	3338	3112

here. The following table gives the production of raw jute in different provinces in Undivided India for the years 1939-40 and 1945-46.

Table 9. Production of Jute by Provinces, in thousands of bales

	Bengal*	Bihar	Assam	Orissa	Total
1939–40 ...	8324	721	661	47	9753
1945–46 ...	6909	471	564	44	7988

It can be seen from the table that the province of Bengal produces about 85% of the total raw jute produced in the country. According to a communique issued by the Government of Pakistan the share of East Bengal in the total raw jute production of the country is about 73.4%. Jute from the Pakistan districts in Bengal, being of hard and medium hard qualities, is fairly strong and contains a good deal of high coloured fibre suitable for the manufacture of high grade hessians. The Indian mills use large quantities of Pakistan jute. This subject is further dealt with in the chapter on "Trade Between India and Pakistan."

Oilseeds: Out of a total area of 23.8 million acres under oilseeds, 74% belongs to the Indian Union, 18% is in the States, mainly in Hyderabad, and 8% in Pakistan. It will thus be seen that the Indian Union is in a strong position regarding the production of oilseeds and particularly so in respect of groundnuts where it has a virtual monopoly.

Tobacco: In 1938-39 the area under tobacco in Pakistan was 380,700 acres, that is one-third of the total Indian acre-

* Including the States of Cooch-Behar and Tripura.

age under tobacco. Pakistan produces 156,300 tons of tobacco which is also one-third of the total Indian production. As compared to the population ratio, Pakistan is in a comparatively better position than the Indian Union.

Coffee: Coffee is wholly grown in the Indian Union and the production was 37 million lbs. in 1943-44. As coffee is not in common use in Pakistan, it may not suffer much on account of this.

Tea: Tea was one of the important articles of export of Undivided India. The total production of the country as a whole is 465 million lbs. per year, of which Pakistan produces 60 million lbs. and the Indian Union 405 million lbs. As 75% of our total production is exported, both the Dominions will continue to export tea.

From the above review it is obvious that Pakistan has large surpluses of raw jute and raw cotton which are largely consumed in the Indian Union. With regard to the other non-food crops, the Indian Union commands an overwhelming share except in the case of tobacco.

Live Stock Resources

We propose to consider the total livestock resources of the two Dominions mainly from two points of view, namely, (1) the use of breeding cows and buffaloes for milk production and dairy industry; and (2) their utilization in the hides and skins industry which was one of the important export industries of Undivided India.

Resources for the Dairy Industry

The following table shows the number of breeding cows and buffaloes used for milk production in Pakistan and the Indian Union.

Table 10. *Breeding Cows and Buffaloes over 3 years old,* 1940 *(figures in lakhs)*

	BREEDING COWS	BREEDING BUFFALOES	TOTAL
Indian Union :			
Provinces ...	240	115	355
States ...	115	45	160
Total ...	355	160	515
Pakistan :			
Provinces ...	75	25	100
States ...	19	7	26
Total ...	94	32	126
Hyderabad ...	10	13	23

Though Undivided India had the second largest output of milk per year in the world, the per capita production and consumption was the lowest in the world. The table shows that the share of Pakistan in the milch cattle of Undivided India is 23.1%. With the division of the country the production of milk per capita in the Indian Union will be lower than the existing 8 ounces per head per day. This is because the production of milk per animal in Sind and the Punjab was much higher than the average. In West Punjab the production of milk per head is about 18 ounces and affords great opportunity for developing dairy industry in that region.

LIVESTOCK RESOURCES FOR THE HIDES AND SKINS INDUSTRY

The following table gives the number of cows and buffaloes and the number of pieces of raw hides annually produced in Pakistan and the Indian Union.

Table 11. *Number of cows, buffaloes, raw cow-hides kips and raw buffalo hides*, 1938

	Cows (in lakhs)	Buffaloes (in lakhs)	Raw cow-hide kips (in lakhs of pieces)	Raw buffalo hides in lakhs of pieces)
Indian Union:				
Provinces ...	413	190	115	36
States ...	204	92	54	17
Grand total ...	617	282	169	53
Pakistan:				
Provinces ...	140	40	31	7
States ...	26	10	5	2
Grand total ...	166	50	36	9

The table shows that the share of Pakistan in raw hides is 15 to 18%.

In India as in other countries skins are obtained as one of the bye-products of the meat trade: but unlike hides, these skins give a handsome yield of 25% of the cost of maintenance of the animal when alive. The following table gives the number of goats and goat skins and sheep and sheep skins produced in Pakistan and the Indian Union.

Table 12. Number of goats and goat-skins and sheep and sheep-skins, 1938
(1 *skin* = $2\frac{1}{2}$ *lbs.*) (*figures in lakhs*)

	Number of Goats	Number of Goat-skins	Number of Sheep	Number of Sheep-skins
Indian Union ...	490	230	400	150
Pakistan ...	90	45	60	20
Total ...	580	275	460	170

The share of Pakistan in skins is about 15%. It will be seen from the table that Pakistan produces a larger number of goat and sheep skins in relation to her total numerical strength of goats and sheep than the Indian Union. This is because unlike the Hindus, Muslims have no sentiments against slaughter of animals.

It would be useful to remember that though the share of Pakistan in raw hides and skins is about 15% her share in the export trade will not be more than 5%. This is because a large part of exports of hides and skins is done in the tanned form and 92% of the tanneries of Undivided India are located in Cawnpore, Calcutta and Madras—all in the Indian Union.

(B) MINERALS

Production of important Minerals

As far as the mineral resources currently exploited are concerned, Pakistan (including the States) is in a very weak position as compared to the Indian Union (including the States). This will be seen from the following summary table

giving figures regarding the production of certain important minerals produced in different regions in 1944.

Table 13. Production of Important Minerals in 1944

MINERAL	INDIAN UNION	PAKISTAN	HYDERABAD	KASHMIR	ALL INDIA
Coal (lakh tons) ...	248	3	9	Negligible	260
Iron (Mn. tons) ...	2.3	...	...	...	2.3
Copper (lakh tons) ...	3.3	...	...	...	3.3
Manganese (lakh tons) ...	3.7	...	...	...	3.7
Bauxite (tons) ...	12,135	...	...	...	12,135
Petroleum (Mn. galls.) ...	82.3	15.2	...	...	97.5
Mica (000 cwts.) ...	139	...	...	...	139

The above table clearly shows that except for petroleum and a negligible quantity of coal, Pakistan does not produce any of the more important minerals. In 1944, 139,000 cwts. or 64% of the world's output of mica was produced in the Indian Union, more than half of which came from Bihar and the remaining from Madras and Rajputana. So far as the better quality of mica is concerned 80% of the world's output comes from Bihar. Mica is of vital importance to the electrical industry. Pakistan does not produce either mica or manganese.

Other Minerals

Besides this, the Indian Union has also more or less a complete monopoly of other minerals that are either worked on a fairly large scale or are of considerable intrinsic importance, viz., barytes, china-clay, magnesite, ilmenite, kynite,

steatite, monazite, ochre, diamonds, gold and silver. In addition to these, the Indian Union has a monopoly in respect of 14 other minerals which are, however, poorly exploited so far. In respect of chromite, fuller's earth and gypsum however, Pakistan has a considerable share as will be seen from the following figures:—

Table 14. *Important Minerals in Pakistan*, 1944

	Indian Union (000 tons)	Pakistan (000 tons)	Total Undivided India (000 tons)
Chromite ...	21	19	40
Gypsum ...	26	58	84
Fuller's earth ...	8	3	11.

In respect of antimony the State of Chitral in Pakistan enjoys a monopoly, but its production is very small.

Salt: As far as salt production is concerned the data available are not of much use in trying to ascertain the shares of the different units. The total production of all the units was about 1.9 million tons. Out of this about 0.1 and 1.1 million tons are definitely attributable to Pakistan and the Indian Union respectively. The remaining production of 0.7 million tons i.e. about 37% of the total is produced in Rajputana and the Punjab, for which separate figures are not available.

Petroleum: The country as a whole does not produce enough petroleum for its requirements and large imports are necessary. 83% of the petrol produced in the two Dominions comes from Assam in the Indian Union and the rest from

Pakistan. Both the Dominions, therefore, depend on import for petrol.

Building Materials

The building and road materials are a class by themselves. They are found over very large tracts of the sub-continen and are worked on a considerable scale. Here also the India Union production far surpasses Pakistan's output. In respec of trap, marble, sandstone, and laterite the Union has go almost a monopoly. On the other hand Pakistan is almos the only producer of slate. In respect of granite, limeston and kankar, and miscellaneous building stones and roa materials the position of the different units is as show below:—

Table 15. *Building Materials*, 1944 *(in lakhs of tons)*

	Indian Union	Pakistan	Hyderabad	Kashmir	Total
Granite ...	14	2	—	—	16
Limestone, etc. ...	41.3	8	2.7	negligible	52
Miscellaneous ...	51	5.4	—	0.6	57

(*Note:* For want of separate data regarding the distribution of the above materials between East and West Bengal and East and West Punjab, the entire production of Bengal and Punjab is assumed to be the production of Pakistan).

Conclusion

It is obvious from the foregoing that as far as current production is concerned in respect of a large majority of

minerals, the Indian Union is in a much stronger position as compared to Pakistan. Of course a thorough geological survey may reveal the existence of a number of minerals like iron, coal, etc., in Pakistan and that too on a considerable scale. But a similar survey would also reveal the possibilities of the Indian Union. Geological survey, however, takes a very long time and actual exploitation much longer. What is important for our immediate purpose, however, is that at present except for an inadequate production of coal, Pakistan does not produce important minerals like iron, copper, manganese and mica, and Pakistan has therefore to meet her needs by supplies from the Indian Union and/or from outside. In view of this, so long as Pakistan's mineral production is not sufficiently large and varied, either her dependence on imports will have to continue or her requirements will have to be curtailed, which may imply among other things slowing down the progress of industrialisation. It should further be noted, that in view of the fact, that the present production of minerals in the Indian Union is hardly enough to meet her current needs (except in respect of mica and manganese), and that any increase in the immediate future can be only small and will be absorbed in the Union itself, it may not be able to meet all the needs of Pakistan.

III. INDUSTRIES

It is not possible to discuss in detail the production and other problems of major industries in the country within the scope of this book. This would require a separate and fuller treatment. The relevant information regarding production has however been utilised in other parts of the book, particularly in the discussion of trade. It is proposed here to confine ourselves to the general problem of distribution of industries.

INDUSTRIAL ESTABLISHMENTS AND EMPLOYMENT

The distribution of industries between the Indian Union and Pakistan naturally reflects the uneven distribution of industries in different parts of the country which was characteristic of our economic development till now. We propose to discuss the nature of this distribution from different points of view with the help of statistics specially compiled for the purpose. The following table gives the broad distribution of industries between the different units.

Table 16. Industrial Establishments and Employment, 1943

	INDUSTRIAL ESTABLISHMENTS		EMPLOYMENT	
	No of establishments	Percentage share	No of Persons employed (in thousands)	Percentage share
Indian Union ...	10,881	85.9	25,80	90.2
Pakistan ...	1,213	9.6	2,50	7.3
Hyderabad ...	510	4.0	62	2.2
Kashmir ...	71	0.5	10	0.3

It is obvious from the above table that the Indian Union is industrially much more advanced than Pakistan. The contrast indicated by the number of establishments in which India has nearly 86% share, becomes greater when the volume of employment is taken into account. More than 90% of the persons employed in industries are accounted for in the Indian Union. This shows that the average size of a factory in the Indian Union is larger than that in Pakistan. The average number of persons employed per factory in the Indian Union is about 202, while the corresponding figure for Pakistan is about 153.

The relative proportion of industrial workers to the popu-

lation as a whole in the two Dominions is clearly brought out by the following table.

Table 17. *Population and Industrial Employment,* 1943

	Percentage share in total population	Percentage share in total industrial employment
Indian Union ...	75.5	90.2
Pakistan ...	19.5	7.3
Hyderabad ...	4.0	2.2
Kashmir ...	1.0	0.3

This table shows that whereas the Indian Union has a population of a little more than 75%, the volume of its industrial employment is more than 90% of the total of all the units. Pakistan has only 1,200 factories which is less than 10% of the total; its industrial employment is 2½ lakhs of persons which is about 1/10th of that of the Indian Union and forms a little more than 7% of the total. This low percentage of industrial workers compared with its share in population, viz., 19.5% shows the comparative backwardness of Pakistan in the matter of industrial progress.

Perennial and Seasonal Factories

It would be of interest to analyse the industrial position of the different units in greater detail to bring out in bold relief the comparative position of the two Dominions. Table 18 gives details of perennial and seasonal establishments in different units of the country. This table shows that the share of the Indian Union in the number of perennial factories is 88.4% as against her share in the total number of industrial establishments which is 85.9%. On the other hand, Pakistan's

Table 18. Perennial and Seasonal Establishments

	PERENNIAL ESTABLISHMENTS				SEASONAL ESTABLISHMENTS			
	No. of factories	Percentage share of factories	No. of persons employed	Percentage share of employment	No. of factories	Percentage share of factories	No. of persons employed	Percentage share of employment
			(in 000)				(in 000)	
Indian Union	7,546	88.4	22,90	90.4	3,338	80	2,90	80.8
Pakistan ...	673	7.1	2,00	7.5	543	16	51	15.0
Hyderabad ...	320	3.7	48	1.8	190	4	15	4.2
Kashmir ...	71	0.8	50	0.3	—	—	—	—

share of perennial factories is smaller (7.1%) than her share of total number of factories (9.6%). This means that in the Indian Union a larger number of factories gives employment throughout the year. The relative importance of seasonal factories, on the other hand in the different units becomes clear from the percentage of the number of such factories to the total industrial establishments in each unit as given in the following table.

Table 19. *Seasonal Factories*, 1943

	Percentage to total number of establishments	Percentage of employment in seasonal factories to total employment
Indian Union ...	30.6	11.2
Pakistan ...	44.6	21.2
Hyderabad ...	32.7	21.7
Kashmir ...	—	—

One striking feature that is revealed by the above table is that in each of the units the percentage of seasonal factories is higher than the percentage of seasonal employment. This leads to the conclusion that the average size of seasonal factories is considerably smaller than that of perennial factories. It also shows that Pakistan has the largest percentage share of seasonal factories though Hyderabad State has the highest percentage of seasonal employment. It may also be mentioned that seasonal factories are mainly sugar mills, tea factories, cotton gins, jute presses and rice mills, and that in the case of sugar mills Pakistan's share is very poor, as will be seen later.

DISTRIBUTION OF MAIN GROUPS OF INDUSTRIES

The above discussion does not bring out the types of industries to be found in the different units. An attempt has, therefore, been made in Table 20 to bring out the share in the industrial employment of the different units in all the factory industries classified in ten broad groups.

An examination of this table shows that the share of Pakistan in some of the important industrial groups is much below its share in the total industrial employment. Thus in the textile group its share is almost negligible, being only 2.6% of the total employment in this industry in the country as a whole. Similarly, its share in the chemical group is as small as 4%. On the other hand, in certain groups of industries such as gins and presses, engineering, hides and skins, minerals and metals and miscellaneous, the share of Pakistan is in excess of its share of the total industrial employment. In order to bring out the relative importance of different groups within each region, we give in Table 21 the percentage of employment in each group of industries to the total industrial employment of that region.

It is obvious from Table 21 (page 34) that the different groups of industries as classified stand in a different order of importance in each of the units. While in the Indian Union the textile industries have the pride of place from the point of view of employment, in Pakistan they come after ginning, pressing and engineering. In Hyderabad State also, the textile industries have the first place, though the employment given by these industries in Hyderabad is only 24% as against 43% in the Indian Union. In Kashmir the textile industries account for 78% of the industrial employment. These facts bring out the overwhelming importance of a single group of industries in the Indian Union. In Pakistan no single group of industries accounts for an employment of more than 23.2%; in the Indian Union the textile group alone employs 43% of the total industrial workers. The engineering group of indus-

Table 20. Distribution of Main Groups of Industries, 1943

	INDIAN UNION		PAKISTAN		HYDERABAD		KASHMIR	
	No. of persons employed (in 000)	% of (1) to the total No. employed in that group of industries	No. of persons employed (in 000)	% of (3) to the total No. employed in that group of industries	No. of persons employed (in 000)	% of (5) to the total No. employed in that group of industries	No. of persons employed (in 000)	% of (7) to the total No. employed in that group of industries
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Textiles ...	11,34	95.5	32	2.7	15	1.2	7.4	0.6
Engineering ...	3,75	87.4	46	10.7	8	1.7	0.9	0.2
Minerals and Metals	90	90.2	8	7.8	2	2.0	0.1	0.1
Food, Drink & Tobacco	3,19	90.9	24.0	6.9	8	2.2	0.2	0.1
Chemicals ...	92	94	4	4.0	2	1.8	0.1	0.1
Paper and Printing ...	61	89.7	4	5.9	3	3.9	0.2	0.3
Wood, Glass, Stone ...	1,09	86.7	8	6.7	8	6.5	0.1	0.1
Hides and Skins	30	88.2	3	8.8	1	3.8	0.03	0.1
Gins and Presses ...	1,34	70.3	47	24.7	14	7.1	—	—
Miscellaneous ...	1,87	89.0	21	9.5	3	1.2	0.4	0.2
TOTAL ...	25,30	90.2	20.6	7.3	63	2.2	9.5	0.3

Table 21. Percentage of employment in each group of industries to the total industrial employment of each region, 1943

	Indian Union	Pakistan	Hyderabad	Kashmir
Textiles ...	43.1	16.0	24.1	77.9
Engineering ...	13.1	22 8	12.2	9.5
Minerals & Metals	2.6	4.2	3.3	1.0
Food, Drink & Tobacco ...	11.2	12.1	12.5	2.1
Chemical ...	2.8	2.4	2.9	1.0
Paper & Printing	1.7	2.4	4.3	2.1
Wood, Glass & Stone ...	1.8	4.4	12.6	1.0
Hides & Skins ...	10.6	1.9	2.0	0.3
Gins & Presses ...	4.6	23.3	21.8	—
Miscellaneous ...	6.7	10.5	4.0	4.2
Total ...	100	100	100	100

tries is more important in Pakistan relatively speaking than in the Indian Union or in the States, as it absorbs a little less than a fourth of the total industrial workers in Pakistan. The position of food, drink and tobacco group of industries is about the same in the different units. The wood, glass and stone group of industries has greater importance in Hyderabad than in the two Dominions. The hides and skins group has some importance in the Indian Union but is almost negligible in Pakistan and in the States. The most striking

contrast between the different units, however, is in the case of the gins and presses group. For, whereas in Pakistan and Hyderabad it constitutes the first best and the second best group respectively, in the Indian Union it is one of the least important, and in Kashmir, there are no ginning and pressing factories at all.

Diversity of Industries

From a closer examination* of the distribution of industries in the different units according to the groups mentioned above, it will be found that out of 87 industries covered by the 10 groups, 28 are wholly absent in Pakistan, while 43 are absent in Hyderabad and 68 in Kashmir. On the other hand, in the Indian Union all the 87 industries are developed to some extent or other. The most important industries which are not found in Pakistan are jute manufacture, ship building, iron and steel works, copper smelting, lead smelting, mica smelting, dyeing and bleaching, paper and paper pulp, soap and metal stamping.

Size of Industries

The above discussion of the distribution of industries will not be complete unless we make an attempt to have some idea of the relative size of industries in the different units. Table 22 (next page) gives the relevant details.

It will be seen that whereas in the Indian Union there are five industries, viz., cotton spinning and weaving, jute manufacturing, general engineering, railway workshops and ordnance factories, each of which employs one lakh or more persons, in Pakistan and in the States there is no such industry. Similarly, whereas in the Indian Union there are four industries, viz., iron and steel, sugar mills, tea factories and cotton gins each of which employs between 50,000 to a lakh of persons,

* For details, see Appendix III.

in Pakistan and in the States they have no such industries. The position of the different units with reference to the industries employing less than 50,000 persons is obvious from the table below.

Table 22. Size of Industries

PERSONS EMPLOYED	NO. OF INDUSTRIES IN			
	Indian Union	Pakistan	Hyderabad	Kashmir
Over one lakh ...	5	—	—	—
50,000 to one lakh ...	4	—	—	—
10,000 to 50,000 ...	24	5	2	—
5,000 to 10,000 ...	13	4	—	—
1,000 to 5,000 ...	23	19	13	2
500 to 1,000 ...	8	11	7	3
Below 500 ...	7	19	19	12

Conclusion

In conclusion we may say that: (1) Pakistan's relative share in the industrial employment of Undivided India is less than its share in the population of the country as a whole; (2) that the development of its industries is not as diverse as in the case of the Indian Union; (3) that it lacks many of the major industries; and (4) that even those industries which it has are of a smaller size as compared to that of industries in the Indian Union. The same remarks are also true of Kashmir and Hyderabad where the size of industries is comparatively small.

IV. TRADE BETWEEN INDIA AND PAKISTAN

Internal Trade before Partition

From the foregoing review of productive resources of both the Dominions in Agriculture and Industries, it is obvious that though the country as a whole is agricultural, Pakistan is more so, as most of the industrial development of the country is concentrated in the Indian Union. Hitherto the requirements of the country as a whole have been met in a considerable measure by internal exchange of goods. In fact the Banking Enquiry Committee estimated that the volume of the internal trade of India was 15 times that of its external trade. It is not possible to estimate the percentage of the internal trade of Undivided India which is affected by the division of the country. The Standstill Agreements between the two Dominions provide for the continuation of the existing economic and commercial relations till 31st March 1948. By that time we may have the emergence of either a unified economic policy on the basis of an Agreement mutually beneficial or the emergence of diverse economic policies, each Dominion trying to go its own way. On the former assumption, it is possible to have a common customs tariff on imports coming from third countries or a continuation of the present arrangements. Even so, changes in tariffs are bound to be made, though they may be made by mutual agreement. If, on the other hand, diverse economic policies are adopted, we will have an internal customs line where duties will be imposed on goods crossing the boundaries of each Dominion. Though it is not possible to consider all the possibilities of trade between the two Dominions, we shall review the position with reference to a few of the more important commodities, which will broadly reveal the nature of the problem.

Foodstuffs

As we have seen before there is an overall deficit of food stuffs in the Indian Union estimated at anything between 3 to 5 million tons of foodgrains. Western Pakistan has a surplus of .62 million tons of wheat, .27 million tons of rice and .1 million tons of inferior grains or a total of about one million tons. Eastern Pakistan has a deficit of .6 million tons of rice. This means that besides exporting the available rice from Western Pakistan to Eastern Pakistan, arrangements will have to be made to find the balance of the rice requirements of Eastern Pakistan, say from Burma. If Eastern Pakistan is not likely to take the entire surplus of Western Pakistan, about half a million tons of wheat from Western Pakistan will be available for export to the Indian Union. It is obvious that though the Indian Union will like to have this half a million tons of wheat from Western Pakistan, it will not meet her deficit of foodgrains, and it will be necessary for her to import large quantities of foodgrains from outside, so long as she is not able to grow the necessary quantities within the country.

Cotton Manufactures

The production of cotton textile mills in the country as a whole in the peak year 1943-44 was estimated at 4870 million yards of cloth. The average annual production of handloom cloth has been estimated by the Handloom Fact Finding Committee at 1500 million yards.

Out of the 410 cotton mills in the country, 15 are in Pakistan and 395 in the Indian Union including States. The number of spindles in Pakistan is .3 millions and the number of looms .03 millions. The Indian Union has 10 million spindles and .2 million looms. The production of cloth is distributed as under:—

Table 23. Production of Mill cloth and Handloom cloth, 1943-44

REGION	Mill cloth (million yds.)	Handloom cloth (million yds.)	Total (million yds.)
W. Punjab ...	50	125	175
E. Bengal ...	140	106	246
N.W.F.P. & Baluchistan	nil	nil	nil
Sind ...	nil	4	4
Total Pakistan ...	190	235	425
Total Indian Union ...	4680	1365	6045

From the above it is clear that the production of cloth in Pakistan is 425 million yards. As against this the cloth requirements of Pakistan including the Pakistan States and Sylhet may be estimated at about 925 million yards. In 1946, the Textile Control Board allocated the following yardage of cloth per capita to the different Provinces that now constitute Pakistan.

Table 24. Cloth Requirements of Pakistan, 1946

REGION	Cloth Allocation per capita (in yards)	Population (millions)	Total cloth required (million yds.)
Sind ...	16	4.5	72
N. W. F. P. ...	19	3	57
E. Bengal ...	10	43	430
W. Punjab ...	19	15.5	295
Baluchistan ...	19	1.5	29

During the same year, the allocation by the Textile Control Board to Provinces now forming the Indian Union was on the basis of 10 yards per head. Assuming that the per capita consumption of cloth in the Indian Union is increased to 15 yards, there will still be an exportable surplus of 1500 million yards in the Indian Union. Though it is possible to have differences of opinion regarding individual needs of cloth in different parts of the two Dominions, the above figures lead to the conclusion that Pakistan will need a substantial quantity of cotton piece-goods, which it will be possible for the Indian Union to supply.

In respect of raw cotton Pakistan is favourably situated. In the year 1943-44 the mills in the Indian Union consumed 4.5 million bales of raw cotton. Out of this 1.5 million bales were imported, 0.5 million bales from other countries and a million from Pakistan. Out of the one million bales imported from Pakistan 0.8 million bales were of long staple cotton. The mills also consumed 1.7 million bales of long staple cotton produced in the Indian Union. It has been found that in recent years considerable progress has been made in the Indian Union for the development of long staple cotton. More systematic steps in this direction are being taken by the Indian Central Cotton Committee. It will however take some time before the Indian Union is in a position to meet her own requirements of long staple cotton. In the interval she must continue to import and for this purpose, she will have to depend on Pakistan, though imports of long staple cotton will also come from Egypt, Kenya and the U.S.A.

JUTE AND JUTE MANUFACTURES

While discussing the Agricultural Resources of the two Dominions, we found that East Bengal produces about 73.4% of the total raw jute of Undivided India. But the jute mills which are the principal buyers of this crop are all located round about Calcutta in West Bengal. In all there are about

46,000 hessian looms and 25,000 sacking looms in the Indian Union and these constitute about 57% of the total jute looms in the world. Undivided India was the principal supplier of raw jute and jute manufactures to the world. The following table gives figures regarding the utilisation of the raw jute production of the country before the partition.

Table 25. Utilisation of Raw Jute in Undivided India, in thousands of bales

	Estimated Production	Exports	CONSUMPTION IN INDIA		TOTAL
			Village consumption	Purchases by mills	
Average of 10 years ending 1938-39...	9,072	3,978	298	5,647	5,945
1945-46 ...	7,991	2,213	600	6,518	7,118

The amount of raw jute sent abroad varies between 25% and 40% of the total raw jute produced in the country. Apart from this export, we also sent abroad jute manufactures to the tune of .6 million tons in 1943-44. These exports are of a fluctuating character.

How does the division of the country affect the jute industry? The effect is that while the Indian Union is the manufacturing centre, Pakistan has the raw material. Raw jute produced in East Bengal is of a quality superior to that produced in West Bengal and other parts of the Indian Union. Because of its strength and high coloured fibre, Pakistan jute is peculiarly suitable for the production of hessians, which account for about 47% of our total production of jute manufactures. It has been estimated by the Indian Central Jute Committee in their Report on the marketing of jute, that the Indian Jute Mills take about 70% of

their raw jute requirements from East Bengal. On an average the Indian mills can consume about 6.5 million bales of raw jute per annum. On the above basis Pakistan can give to the Indian Union 4.5 million bales of raw jute.

It must be remembered that under the existing circumstances, the Indian Union is the only profitable market for Pakistan jute. To send jute to any country outside India, Pakistan needs a port as large as Calcutta, which used to send out 90% of our jute exports. Chittagong in East Bengal is too small for this purpose. At the most it can handle only 15% of Pakistan's production of raw jute. Further, it would take years to expand the capacities of this port. Pakistan has no mills and under the existing circumstances of world shortage of capital goods and paucity of capital in Pakistan, the possibilities of Pakistan having her own jute mills, in the near future, are limited.

Once we realise this interdependence of Pakistan and the Indian Union in the matter of raw jute and the jute industry, it will be easier to understand the economic and financial implications of the jute export duty, levied by the Pakistan Government on all raw jute going to the Indian Union. Because of their superior bargaining capacity, the Jute Association of Calcutta and the Millowners will be able to shift a part of the incidence of this duty on the Pakistan grower of jute in the form of lower prices. If the existing double duty on jute remains, production of substitute synthetics abroad will be encouraged. The Indian Union jute growers may themselves try to improve the production and quality of their own raw jute and would be able in time to replace a considerable part of the East Bengal supplies.

It would be in the mutual interests of both Pakistan and the Indian Union to negotiate a settlement of this controversial issue on the basis of only one export duty at the ports to be shared equitably between them. Such an agreement will benefit both the Pakistan growers of raw jute and the Indian Union jute manufacturer, while preserving at the

same time the larger interests of our jute industry in the world market.

Coal

The average annual output of coal in the country has been estimated by the Indian Coal Fields Committee at 29 million tons. Pakistan produces only 0.3 million tons of this quantity. Pakistan's minimum requirements of coal may be estimated at three million tons of which the railways alone will consume 2 million tons. For any industrial development in future Pakistan will require more coal. Till she is able to develop her mining resources, if any, she will be dependent on the Indian Union for her coal supplies.

Sugar

The following table gives the production of sugar in the Indian Union and Pakistan during 1943-44 as compiled from the estimates made by the Panel on Sugar Industry.

Table 26. Sugar Production, 1943-44

	Area under sugarcane	Number of factories	Sugar produced
	(000's of acres)		(in 000's of tons)
Indian Union ...	36,60	146	11,91
Pakistan ...	6,18	8	25
TOTAL ...	42,78	154	12,16

It will be seen from the table that though the area under sugarcane in Pakistan is about 14% of the total, its production of sugar is only 2%. This is because the number of sugar factories in Pakistan is only 8 out of a total of 154. On a per capita consumption requirement of at least 6 lbs.

per year, Pakistan needs about 2 lakhs of tons of sugar, whereas on the same basis the Indian Union will need only about 8.5 lakhs of tons. The Indian Union can supply a large part of Pakistan's sugar requirements for some years to come.

Mica

64% of the world's production of mica is in the Indian Union. Pakistan does not produce mica and her requirements, if any, will have to be found from India.

Cement

Though the sales of cement for the financial year 1946-47 amounted to only 16 lakhs of tons, the present rated output of cement in the country is estimated at 26.5 lakhs of tons. Of this quantity the Indian Union is capable of producing 21 lakhs of tons and Pakistan can produce 5.5 lakhs of tons. Because of the war, much of the building and construction work requiring cement was taken up only on Government works. It is not possible therefore, to estimate the demand for cement at the present day, though there is likely to be a great demand for housing materials on private account. A ton of cement would need half a ton of coal and an adequate supply of gunny bags for packing. Because of its precarious coal position and lack of manufactured jute, the Pakistan Government will depend on the Indian Union to be able to produce an output upto its optimum capacity, whereas the Indian Union being favourably situated in the supply of these materials can increase its production of cement in course of time.

Iron and Steel

It is said that Pakistan has some deposits of iron but they have not yet been tapped. Besides, Pakistan has no pig-iron or steel industry. The production of steel at Jamshedpur is not adequate for the requirements of the Indian

Union and we shall have to import steel from other countries. It may however be possible for certain essential steel requirements of Pakistan to be met from the Indian Union by agreement.

CONCLUSION

The foregoing review of the possible trade in some of the more important commodities between the Indian Union and Pakistan reveals the following.

On an average the deficit of the Indian Union in foodstuffs is anywhere between 3 to 5 million tons. Pakistan can supply about .5 million tons. The Indian Union will require 4 million bales of raw jute from Pakistan for her jute manufacturing industry. Pakistan will still have a surplus of 3 million bales for exporting to other countries. The Indian cotton textile mills will require 1.5 million bales of long staple cotton from outside ; Pakistan is in a position to supply about 0.8 million bales of such cotton. Pakistan will be dependent for the supply of cotton piecegoods on the Indian Union to the extent of 500 million yards or more. Similarly, she will depend for the supply of sugar on the Indian Union to the extent of 370 million lbs. Pakistan will also have to obtain her coal requirements of about 3 million tons from the Indian Union. Similarly, Pakistan will have to obtain supplies of steel, leather goods, jute manufactures, some metals and minerals and glass from the Indian Union. Though it is not possible to make reliable estimates in money values of the requirements of each Dominion, it may be said that on the whole the exports in terms of money values of Pakistan to the Indian Union may be in excess of her imports by about Rs. 47 crores a year.* In other words, Pakistan is likely to have a favourable balance of trade with the Indian Union to this extent.

Though we cannot forecast the exact nature and volume

* For details of this estimate, see Appendix IV.

Table 27

COMMODITIES	VALUE OF EXPORTS (in lakhs of Rs	
	1938-39	1945-46
1. Coal and Coke ...	1,36	25
2. Coffee ...	75	26
3. Manganese Ore ...	1,07	65
4. Sandalwood Oil ...	10	16
5. Twist and Yarn ...	1,87	1,48
6. Cotton Piecegoods ...	3,24	29,52
7. Jute Manufactures ...	26,26	57,12
8. Tobacco Manufactures ...	74	48
9. Rubber ...	72	37
10. Tea ...	23,42	35,52
TOTAL ...	59,53	125,81

B. ARTICLES MAINLY EXPORTED FROM PAKISTAN

As for the articles which are mainly produced in Pakistan and are likely to be exported by Pakistan and not by the Indian Union we may refer to wheat flour and raw jute whose export in the selected years was as under:—

Table 28

	1938-39	1945-46
	(in lakhs of Rs.)	
Wheat Flour	78	3
Raw Jute	1339	1584

It may be mentioned however that the export of raw jute is done mainly through Calcutta and only in a small measure through Chittagong. It is well known that the export trade of raw jute is handled by business houses in Calcutta, controlled mostly by the citizens of the Indian Union. They are also known to finance the grower of raw jute so that he may be encouraged to produce the material for export. Though it is not possible to estimate the exact proportion in which the export trade in raw jute is handled by Calcutta merchants, it would be true to say that a substantial portion of it is under the control of Calcutta merchants. The recent imposition of the jute export duty across the land frontiers of Pakistan will perhaps crystallise this position. Calcutta merchants who want to continue to export raw jute will have in the first place to import it from Pakistan after paying the duty. Thereafter, they will export it to their customers abroad. It is obvious that to the extent to which raw jute is handled by merchants of the Indian Union and exported via Calcutta, it becomes an export of the Indian Union. This implies that Pakistan will obtain Indian rupees in lieu of jute exported to the Indian Union either for further export or for local use ; this will be foreign exchange for Pakistan, which will be first required for the purchase of goods from India as indicated in the former chapter, and may be available for international use, if there is a surplus of such exchange. In any case for the present such exchange is not available for international use, because it is not possible to convert the rupee freely into foreign exchange.

C. OTHER ARTICLES

There are certain commodities for which it is difficult to divide the trade between the two Dominions, either because the data are scanty or because it is not possible to ascertain the origin of the trade, in view of the widespread distribution of their production. In the case of such commodities we

have assumed that the trade passing through Bombay and Madras belongs to the Indian Union ; that passing through Karachi is attributed to Pakistan and the amount passing through Bengal is divided between East and West Bengal on the basis of their population. This gives the following results.

Table 29. *Other Exports (in lakhs of Rs.)*

	1938-39	1945-46		1938-39	1945-46
Exports from Madras ...	12,85	15,76	Exports from Karachi ...	4,14	18,12
Exports from Bombay ...	5,72	11,66	Export attributable to E. Bengal	5,43	7,66
Exports attributed to W. Bengal ...	2,72	3,81			
Total India...	21,29	31,23	Total Pakistan ...	9,57	25,78

D. MISCELLANEOUS ARTICLES

The fourth category of commodities not covered by the above classification may be treated as miscellaneous commodities. The export trade in them is divided on the basis of the percentage share of India and Pakistan in respect of population, viz., 81% and 19% as under:—

Table 30. *Miscellaneous Exports (in lakhs of Rs.)*

		India	Pakistan
1938-39	...	4715	1106
1945-46	...	3418	802

Table 31. *Relative Shares of Indian Union and Pakistan in Exports*

(in lakhs of Rs.)

	INDIA		PAKISTAN		TOTAL	
	1938-39	1945-46	1938-39	1945-46	1938-39	1945-46
A. Wholly attributable to India ...	59,53	125,81	—	—	59,53	125,81
B. Wholly attributable to Pakistan ...	—	—	14,17	15,87	14,17	15,87
C. Divided on basis of port of export and population ...	21,29	31,23	9,57	25,28	30,86	56,51
D. -do-	47,15	34,18	11,06	8,02	58,21	42,20
TOTAL ...	127,97	191,22	34,80	49,17	162,77	240,39
% OF TOTAL ...	78.53	79.65	21.47	20.45	100	100

Table 31 summarises the results of the above analysis. It will be seen that by this method of calculation we are reasonably sure of the source of export in the case of groups A and B which together account for about 57% of the total exports. In the case of the other two groups it is hoped that the estimates would be approximately correct. The result shows that in both the selected years, the share of India in the total export trade is a little less than 80% and the share of Pakistan is a little more than 20%, whereas their population is in the proportion of 81 to 19.

Detailed estimates of the share of each Dominion in the total import trade of Undivided India are not possible because of want of adequate information on the subject. While it is possible to trace the exports of each Dominion through statistics of production, the absence of data regarding the regional consumption of imported articles makes it difficult to estimate the imports of each Dominion. Besides, published import figures do not include imports on Government account, which are bound to be substantial in recent years because of large food imports on Government account. In spite of these handicaps, a tentative attempt has been made in the following table to arrive at a broad estimate of the imports of each Dominion:—

Table 32. Share of Import Trade on Private Account 1945-46 *(in crores of Rs.)*

CATEGORY OF IMPORTS	Total Imports	Share of Pakistan	Share of Indian Union	Basis of Division
Food, drink and tobacco ...	22	5	17	Population
Raw materials of industries ...	128	9	119	Industrial employment
Manufactured goods.	84	17	67	Population
TOTAL ...	234	31	203	

This shows that the share of Pakistan in the import trade is about 15% as against its share in the export trade which is about 20%.

BALANCE OF TRADE

Detailed figures for years later than 1945-46 are not available. But if we divide the foreign trade of Undivided India for the year 1946-47, according to the proportions noted above, some broad tendencies regarding the balance of trade of each Dominion can be observed.

The peculiar feature of the trade of Pakistan that is revealed from the analysis given in the preceding section as well as in this, is that the foreign trade of Pakistan will be predominantly with the Indian Union as shown below:—

Table 33. Balance of Trade of Pakistan, 1946-47 (in crores of Rs.)

	To or from India	To or from other countries
Exports from Pakistan ...	121.5	64
Imports into Pakistan ...	74.5	43
Pakistan's Balance of Trade on private account ...	+47	+21
TOTAL ...	+68	

Though the trade of the Indian Union with Pakistan is substantial, her trade with other countries is much greater as shown in the following table.

Table 34. Balance of Trade of the Indian Union, 1946-47, (in crores of Rs.)

	To or from Pakistan	To or from other countries
Exports from Indian Union ...	74.5	255
Imports into Indian Union ...	121.5	243
Indian Union's Balance of Trade on private account ...	—47	+12
TOTAL ...	—35	

The above tables show the probable extent of the favourable balance of trade that Pakistan may have, and also the extent of adverse balance of trade that the Indian Union may have to face. If the trade on Government account which includes large food imports, is taken into account, the *adverse balance of trade of the Indian Union will be much greater.* The above tables also bring out the close interdependence of the economy of the two Dominions.

Foreign Exchange

From the point of view of the balance of payments with foreign countries, and the capacity to purchase imports from abroad, the above analysis has considerable significance. We have shown that Pakistan is likely to have a favourable balance of trade both with the Indian Union and with other countries. The Indian Union on the other hand is likely to have an adverse balance of trade both with Pakistan and with other countries. It must however be remembered that

the volume of trade of the Indian Union is much greater than that of Pakistan and the room for adjustment is therefore greater. The industrial development of the Indian Union and her greater total resources will make it possible for her to restore the necessary balance in her trade as soon as possible. So long as this is not done, the Indian Union will have to face the problem of restricting imports.

Sterling Balances

The necessity for increasing our foreign exchange resources by developing exports has been recently emphasised by the Commerce Minister. This is so because it is desirable to purchase current imports by means of current exports. The possibility of developing the export trade depends however on the increase in the production of various things. In this connection it may be appropriate to refer in brief to our foreign exchange reserves in the form of sterling balances. It has been decided that these reserves should not be utilised for the import of less important goods, but should be used to finance the import of capital goods required for the development of the country. In more recent times, the sterling balances had to be used for purposes other than capital goods. These balances reached the record figure of Rs. 1733 crores in April 1946. By March 1947 they came down to Rs. 1612 crores showing a reduction of Rs. 121 crores in a year. By July 1947 they amounted to Rs. 1547 crores. This reduction is accounted for by the large imports of food grains as well as of consumers' goods. With a view to conserving these resources for the future, the import policy was changed from the middle of 1947. Certain non-essential luxury goods have been prohibited; other consumers' goods are licensed on a quota basis. Restrictions on remittances abroad have been imposed. Imports of food, capital goods and raw materials for industries as well as certain essential consumers' goods are allowed freely. The reduction in sterling balances from

July to November 1947 was only Rs. 21 crores, because of the new policy. During this period the provisional agreement regarding sterling balances was in operation, which made it possible for the Government of India to remove the discrimination in imports between the sterling area and the dollar area. The agreement provides that the sterling balances will be divided into two accounts, Account No. I and Account No. II. The second account contains what may be called the frozen balances which cannot be used, until they are transferred to Account No. I. In the first account there was a credit of £65 million, of which £30 million represented a working balance. This was to last upto 31st December 1947, and is to be replaced by a new provisional agreement which is now under negotiation.

It was provided that we could use the amounts in Account No. I in any part of the world including the U.S.A. On account of the dollar crisis which has developed in the U.K. in the meanwhile, which has resulted in the suspension of the convertibility of sterling into dollars, it is possible that in future the discrimination between imports from dollar and sterling areas may be necessary.

India continues to be a member of the Empire Dollar Pool. This is a fund containing foreign exchange resources of different sterling area countries with the Bank of England. Members of the sterling area can obtain their foreign exchange from this Fund and they are expected to keep their foreign exchange earnings in sterling with this Fund. During the period September 1939 to March 1947 we made a net contribution of Rs. 92 crores or 275 million dollars to this Fund. Since 1946-47 we have been drawing from the Pool for our requirements and we are dependent on the Pool for our current deficit with the U.S.A. and other hard currency countries. The future position in this connection will depend on the new agreement regarding sterling balances.

Division of Sterling Balances

The figures referred to above regarding sterling balances and Empire Dollar Pool relate to Undivided India. For the purpose of division of these assets between the two Dominions, the following procedure will be adopted. According to the agreement for the division of assets and liabilities between the two Dominions, the position of the note circulation in Pakistan will be determined as on 30th September 1948. Pakistan Notes, that is, notes inscribed with the words "Government of Pakistan" will be issued from 1st April 1948. The people of Pakistan will have the opportunity of converting the existing Indian Notes into Pakistan Notes. Assets equal to the total liability in respect of Pakistan Notes will be transferred to Pakistan after 30th September 1948. Different types of assets, such as gold, sterling securities, India rupee coin and Indian rupee securities will be transferred in the proportion in which they are held in the Issue Department of the Reserve Bank on 30th September 1948, subject to the following arrangement. The sterling assets of the Issue Department and the Banking Department of the Reserve Bank of India as on 30th September 1948 will be taken together. Deductions will be made from this total for lump payment to H.M.G. for pensions, etc. Out of the balance, a sum in sterling, which along with the gold held in the Issue Department will be equal to 70% of the total liabilities of that Department on 30th September 1948, will be allocated between the two Dominions, in the ratio of the liability for notes in each Dominion. Of the remainder, 17½% will be allocated to Pakistan. By this calculation, Pakistan will be entitled to additional sterling in excess of what was decided by the Pakistan Monetary System Order as explained above. This excess amount will be sold to Pakistan in return for Indian rupees from the frozen part of the sterling balances.

VI. TRANSPORT

An attempt has been made in this chapter to give a brief analysis of the way in which the Transport Services are affected by the partition. We do not refer to roads as they naturally fall within the Dominion concerned. The discussion is confined to (*a*) Railways, (*b*) Shipping, and (*c*) Civil Aviation.

RAILWAYS

By the division of the country, seven out of the nine railway systems go intact to the Indian Union, while the remaining two, namely, the Bengal Assam Railway and the North Western Railway have been divided on the basis of location within the physical boundaries of each Dominion. The total route mileage of railways in each Dominion is shown in the following table:—

Table 35. *Route Mileage of Railways*

The Indian Union	Miles	Pakistan	Miles
Sections of N.W.Rly.:		Sections of N.W.Rly.:	
Commercial ...	1,610	Strategic ...	1,817
		Commercial ...	3,110
Sections of B.A.Rly.:		Sections of B.A.Rly.:	
Broad gauge ...	376	Broad gauge ...	503
Meter " ...	1,399	Meter " ...	999
Railways not affected by Partition ...	21,180	Jodhpur Hyderabad Railway ...	319
TOTAL ...	24,565	TOTAL ...	6,748
Capital at charge, Rs. 672 crores		Capital at charge, Rs. 136 crores	

The table shows that the share of Pakistan in the total route mileage of the railways of Undivided India is about 20%.

It is difficult to foresee the financial trends in the working of the railways of each Dominion vis-a-vis the other, as the Pakistan Railway Budget is not yet out. The Railway Budget of 1947-48 for the whole of India as presented to the Central Legislature in February 1947 has been seriously affected by the implementation of the recommendations of the Central Pay Commission and by an increase of coal prices. It would not therefore be safe to make estimates for Pakistan by the use of the figures of the interim Railway Budget of the Indian Union. We shall however attempt to give an idea of the financial position of Pakistan Railways by other methods.

Railways in the Indian Union

Taking into account the recent increase in the railway rates and fares, the financial working of railways in the Indian Union during the period 15-8-47 to 31-3-48 and for the budget year 1948-49 is shown below:—

(Rs. in crores)

	15-8-47 to 31-3-48		1948-49
	Budget	Revised	Budget
Gross Traffic receipts ...	116.15	108.00	190.00
Total working expenses ...	107.18	100.99	159.78
Net miscellaneous revenue	1.28	1.40	2.16
Net Revenue ...	10.75	8.41	32.38
Interest charges ...	13.44	13.61	22.53
Surplus (+) or Deficit— ...	—3.19	—5.20	+9.85

Railways in Pakistan

As pointed out above, exact figures of the financial working of the railways in Pakistan are not yet available. The following table however shows the nature of profitability of the railways in Pakistan as can be inferred from figures given

in the Railway Budget of 1946-47 for Undivided India. Though the figures refer to the whole of the railway systems of Bengal and Assam and the North Western, the financial trends are likely to persist even in the divided parts of these railways, going to Pakistan.

Table 36. Financial Working of the Railway systems now partly located in Pakistan, 1946-47
(in lakhs of Rs.)

Name of the Railway system	Gross traffic receipts	Total working expenses	Net Revenue	Interest charges	Profit (+) or loss (—)
Bengal Assam Rly.	14,10	17,60	—350	295	—651
Jodhpur Railway...	75	48	+27	5	+ 22
N. Western Rly.:					
Commercial ...	33,51	20,17	+13,14	402	+912
Strategic ...	1,85	2,86	—111	111	—212

During the year 1946-47 the railway systems now intact in the Indian Union earned profits amounting to Rs. 10,26 lakhs, while from the table it is clear that the total profits of the railway systems partly located in Pakistan were only 71 lakhs. Thus though the route mileage of Indian Railways is four times that of Pakistan Railways, the profits of the former in the year 1946-47 were 14 times those of the latter. The table thus shows that with the usual unprofitability of the strategic lines of the North Western Railway, added to the not very profitable lines of the Bengal Assam Railway, the Pakistan Railway Budget may as well fail to show a surplus, if the Pakistan Government like our own tries to implement the recommendations of the Central Pay Commission.

tonnage of Pakistan ships would thus be about 40,000 tons. Thus while the share of the Indian Union in the existing shipping tonnage of Undivided India would be 85%, Pakistan's share would be 15%, provided the Mogul line company transfers its headquarters. Though Pakistan has not a large shipping tonnage a majority of the sailors of the Indian Union are Muslims. It is estimated that out of a total number of 250,000 sailors in the country, about 200,000 are Muslims.

There is only one training ship for cadets, the "Dufferin" in the Indian Union. Annually it takes about 50 students. The Pakistan Government has been allotted 12 seats.

Civil Aviation

The total air strength of Undivided India in 1947 was 100 Dakotas, 12 Vickers Viking and 69 planes of various other types. At present all these belong to the Indian Union. It is rumoured however that the Muslim-owned Orient Airways of Calcutta may transfer its headquarters to Karachi. She has 9 Dakotas and 2 planes of other types. In the Indian Union there will then be 9 companies while there will be one in Hyderabad (Deccan). The air strength of Pakistan was so weak that during the recent evacuation movements, the Pakistan Government had to depend on B.O.A.C. planes. There are 5 flying clubs in the Indian Union and 2 flying clubs in Pakistan. The only training school for pilots at Saharanpur is in the Indian Union. Recently it has been decided to start an international air service between India and U.K. under the auspices of the Government of India. This service is expected to begin work in May 1948.

VII. CURRENCY, BANKING AND INSURANCE

TRANSITIONAL ARRANGEMENTS

In view of the peculiar circumstances which brought about the sudden emergence of the Dominion of Pakistan, it is easy to understand why that Dominion could not start its career with an independent currency and credit system, which is considered to be the essential attribute of a sovereign state. Such an arrangement would have suddenly disrupted the entire economic life of that Dominion. To avoid that catastrophe, the Pakistan Monetary System and Reserve Bank Order 1947, was issued whereby the existing currency and banking mechanism under the ægis of the Reserve Bank of India was allowed to continue till 30th September 1948.

The following are the main provisions of the Order of which the first three relate to the currency system in Pakistan, the fourth defines the functions of the Reserve Bank as the banker to the Pakistan Government and the last refers to the relations between the Reserve Bank and the commercial banks in Pakistan.

(i) The Reserve Bank of India continues to be the sole note issuing authority in Pakistan till 30th September 1948 and "India Notes"* continue to be legal tender in Pakistan till then. The Reserve Bank may issue after 1st April 1948 "Pakistan Notes." After the 30th September 1948, however, the Reserve Bank will not issue any notes for Pakistan and the Government of Pakistan has to make its own arrangements for issuing currency notes.

(ii) Soon after 30th September 1948 assets of a value equal to the "Pakistan Notes" will be transferred from the Issue

* "India notes (coins)": notes (coins) which are legal tender in India. "Pakistan notes (coins)": notes (coins) bearing the inscription "Government of Pakistan."

Department of the Reserve Bank to the Government of Pakistan. The Government of Pakistan will accept "India Notes" at par until 31st March 1949 and assets of value equal to such "India Notes" outstanding in Pakistan will be transferred from the Issue Department to the Government of Pakistan.*

(iii) As in the case of currency notes issued by the Reserve Bank, the rupee coins and subsidiary coins issued by the Government of India will be legal tender in Pakistan at least one year from the introduction of the corresponding "Pakistan coins." The Reserve Bank after 31st March 1948 will put into circulation "Pakistan coins" as far as possible and use "India coins" only to supplement them when they are in short supply. After 30th September 1948, the Government of Pakistan will be responsible for issuing coins.

(iv) The Reserve Bank continues to act as a banker to both the Central and Provincial Governments of India and Pakistan till 30th September 1948. The management of the public debt, the issue of new loans and exchange operations, however, will not be performed by the Reserve Bank for the Central and Provincial Governments of Pakistan after 31st March 1948, when the financial year ends.

(v) The relations of the scheduled and non-scheduled banks in Pakistan to the Reserve Bank will continue to remain till 30th September 1948 as they were before the partition.

Bank Offices

An idea of the comparative strength of commercial banking in India and Pakistan before the actual partition of India may be had from the following table:—

Pakistan accounted for 13% of the Head Offices of the total number of scheduled banks in the two Dominions and for 20% of the total number of offices. In view of the fact

* The problem of sterling assets is dealt with in Chapter V.

Table 37: Scheduled and Non-scheduled Banks—Offices

	INDIA	PAKISTAN	TOTAL
Scheduled Banks: Head Offices	85	13	98
„ „ Total „	2,513	633	3,146
Non-Scheduled Banks: Head Offices	462	157	619
„ Total „	1,637	568	2,205

that the population of Pakistan is about 20% of the total population of the two Dominions, the offices of the scheduled banks were distributed evenly as between the Indian Union and Pakistan, although India had a greater share in respect of head offices. Pakistan had a bigger share in the distribution of non-scheduled banks with capital and reserves over Rs. 50,000 in that about 25% of these banks were in Pakistan. Western Pakistan was better provided with banking facilities than Eastern Pakistan inasmuch as 10 out of the 13 scheduled banks and 123 out of the 157 non-scheduled banks in Pakistan were situated in the Western Zone, which accounts for only one-third of Pakistan's total population. This is to some extent due to the fact that Calcutta was the chief centre from which banking services were radiated to East Bengal; in consequence, although the branch offices of these banks fall within Pakistan territory, the Head Offices are in the Indian Union.

The following figures from the statement issued by the Reserve Bank on 22nd August 1947 showing separately for the first time the position of the scheduled banks in the two Dominions gives an idea of the total deposits, advances and bills discounted immediately after the partition.

Table 38. Banking Business in India and Pakistan, 1947, (in crores of Rs.)

	Indian Union	Pakistan	Total	Percentage of Pakistan to total
Demand and Time deposits ...	929	104	1,033	10%
Advances and Bills discounted ...	374	45	419	11%

Although Pakistan had one-fifth of the total number of offices of the scheduled banks in the two Dominions, its share in respect of deposits as well as of advances and bills discounted was only about one-tenth. This indicates that the business transacted per office in Pakistan was on an average much smaller than in the Indian Union. This shows that though Pakistan was not deficient in respect of the number of banking offices, it was deficient as compared to the Indian Union as regards actual banking business transacted.

Clearing House Returns

Clearing House returns give some indication of the volume of business activity in commercially important towns. The following table compiled from the Reserve Bank of India Report on Currency and Finance for 1946-47 gives an idea of the comparative position of the Indian Union and Pakistan before the partition. (i) Separate figures are available for Calcutta, Bombay, Madras, Cawnpore and Delhi in the Indian Union and for Karachi and Lahore in Pakistan. (ii) A consolidated figure is available for 19 other centres for the year 1946-47 of which 17 are in the Indian Union and two in Pakistan. We have therefore roughly divided this consolidated figure in proportion to the number of these centres

in India and Pakistan. By adding together the figures relating to Indian Union and Pakistan respectively under (i) and (ii) we get the following estimate:—

Table 39. Annual Clearing House Returns

	INDIAN UNION		PAKISTAN		Total Rs. in crores
	Rs. in crores	Percentage to total	Rs. in crores	Percentage to total	
1938-39 ...	1879	97	43	3	1922
1946-47 ...	6782	95	356	5	7168

As compared to the share of Pakistan in respect of the number of offices of the scheduled and non-scheduled banks the share of Pakistan as regards clearances is too low, being only 5%. This may be partly because there are fewer centres having clearing houses in Pakistan, and partly because the highly agrarian character of Pakistan's economy is responsible for a lower velocity of circulation than in the Indian Union.

RECENT DEVELOPMENTS

The above description of the position of banking in the two Dominions before the partition, however, does not give a proper idea of the present situation. The partition, which was followed by the sudden eruption of communal riots in the Punjab has entirely changed the situation which continues to be fluid even today. The major trends are, however, noticeable. The capital and deposit resources of many of the banks in the Punjab were provided mainly by non-Muslims. Most of such banking offices have closed or have migrated during the recent riots, e.g. the Punjab National Bank, and as a result the credit structure of Pakistan has been weakened considerably. The indigenous bankers, mostly Hindus, who

were providing a major portion of the capital, have also migrated from West Pakistan. The West Punjab Government attempted to restrict the flight of capital by issuing an Ordinance in the first week of September, but that Ordinance was withdrawn as it was ultra vires of the Pakistan Monetary System and Reserve Bank Order. Pakistan has also attempted to prevent the refugees from carrying valuable movable property, currency and bullion.

The partition of the country was also threatening to undermine the banking system in East Punjab and Delhi. Many of the refugees from West Punjab were frantically trying to withdraw money from branches of those banks in West Punjab in which they had deposited their money. But the banks could not transfer their assets speedily to the Indian Union. Under such circumstances, the panicky withdrawal of deposits by the refugees would have caused a "run", in which many intrinsically sound banks would have suffered. To meet such a crisis, the Reserve Bank Act of 1934 was amended so as to enable the Reserve Bank to lend liberally to the scheduled banks against any type of securities which it might consider sound, but the acceptance of which might not be permissible under the original Act. In addition to this, the Banking Companies (East Punjab and Delhi) Ordinance was passed in the last week of September 1947, by which the Government of India could pass an order staying for three months all proceedings against a banking company whose registered office was situated in East Punjab or Delhi. During this period, the bank concerned is required to make payments to the depositors not exceeding 10% of their deposits or Rs. 250, whichever is less. The Government of India can also render positive assistance to the banks seeking relief by granting them advances for making payments to the depositors. The conditions for the repayment of these advances will be decided by the Government on the expiry of the moratorium, but in case a bank is wound up, the amount due to the Government will be the first charge on the assets of the bank in respect

of any loan advanced before the commencement of the Ordinance. A similar Ordinance has been issued in Pakistan.

The measures mentioned above have prevented the adverse effects of the partition on the banking system in the Indian Union. But the recent developments in West Pakistan have shaken the foundations of the credit structure of that Dominion. It has affected the financing of wheat and cotton trade which is the mainstay of Pakistan's economy. The Pakistan

Table 40. Monthly Statement of the Position of Scheduled Banks in 1947-48 (in crores of Rs.)

	22nd Aug.	26th Sept.	24th Oct.	21st Nov.	26th Dec.	23rd Jan.
Demand Liabilities						
India ...	625	634	644	651	648	663
Pakistan ...	65	65	68	74	80	86
Time Liabilities						
India ...	314	318	314	312	316	315
Pakistan ...	39	38	33	31	26	23
Cash						
India ...	36	35	35	35	35	36
Pakistan ...	5	4	5	5	4	4
Advances						
India ...	359	355	367	369	387	410
Pakistan ...	44	43	38	38	37	41
Bills Discounted						
India ...	15	14	14	15	17	17
Pakistan ...	1.32	1	1.94	1	1	1

Finance Corporation, with a paid up capital of Rs. 1 crore with arrangements to obtain a further sum of Rs. 5 crores, has been formed to finance the ginning and pressing of cotton in West Punjab. Pakistan is, therefore, starting its career with a shattered banking system.

RECENT BANKING STATISTICS

The following tables show the recent trends in banking both in India and in Pakistan. Table No. 40 indicates the trends in the financial position of the scheduled banks both in India and Pakistan, while Table No. 41 shows the trends of Government deposits with the Reserve Bank in the Banking Department since 22nd August 1947.

Table 41. *Reserve Bank of India—Banking Department (in crores of Rs.)*

	22nd Aug.	26th Sept.	24th Oct.	21st Nov.	26th Dec.	23rd Jan.
Deposits of						
(*a*) Central Government of:						
India	361	369	360	370	356	269
Pakistan	20	17	10	7	2	45
(*b*) Other Governments in:						
India	8	11	18	20	17	12
Pakistan	3	2	4	4	1	—

These statistics are compiled from weekly statements published by the Reserve Bank of India and they indicate monthly changes. Great caution is necessary in interpreting these figures. The Reserve Bank authorities declare the figures

Only 10% of the Indian companies and only 2% of the non-Indian companies had their head offices in Pakistan. Almost all the head offices of non-Indian companies are in Calcutta and Bombay.

Insurance companies operating in Pakistan are faced with grave problems. Even before the partition insurance companies had to bear the heavy burden of losses incurred by policy-holders during the disturbances which started as far back as August 1946. The partition aggravated the destruction of property in the Punjab and endangered the insurance structure. Insurance companies which shifted their offices from West Punjab could not transfer their assets and records from Pakistan owing to the disturbances. The Evacuee Insurance Companies Association was therefore formed to safeguard the interests of 26 companies whose head offices or other offices were in Pakistan. The business community in India has been pressing the Government of India for the introduction of riots risks insurance similar to the war risks insurance which existed during the war, and the Government of India is considering the introduction of a riots risks insurance scheme under its auspices. The Pakistan Government has introduced compulsory riots risks insurance for cotton in Sind and it is considering its extension to other provinces and other trades. If industrial and business activity is not to receive a severe check on account of insecurity of property, prompt Government action is absolutely necessary because these problems are beyond the control of insurance companies.

VIII. REVENUE AND EXPENDITURE

REVENUE RESOURCES OF INDIA AND PAKISTAN*

In this chapter we propose to give estimates of the probable revenue resources of the two Dominions on the existing basis of taxation. There are several statistical difficulties in making this attempt. The methods adopted in the more important cases will be explained below so that the probability of these estimates proving more correct than others can be judged by the reader.

Taxes on income constitute the most important source of revenue in recent times. We have to take the final accounts of the year 1944-45 as the basis for division, as this is the latest year for which the necessary details for divided Provinces are available. In view of this, the figures for other sources of revenue also relate to 1944-45. It is true that due to changes in circumstances, the figures for 1944-45 cannot be the same as those for 1947-48 or any future year. It is, however, submitted that the long-term tendencies indicated by these figures will come true in future.

Wherever possible, estimates are made on the basis of the yield of an item of revenue in each Province or a part of it, because this would reflect the local conditions peculiar to that area. The division of an existing source of revenue on the basis of population is done only as the last resort, in cases where a more accurate method is not possible. In order to illustrate the inaccuracy which may creep in by taking the population basis, we may point out that the population of Bengal is thrice that of Bombay, yet Bombay contributes to

*This section was published as an article in the *Times of India*, Independence Day Supplement on 15th August 1947. It has been considerably revised since. Thanks are due to the Editor, *Times of India*, for permission to incorporate the same here.

the Centre a larger share by way of income and super taxes.

For Provincial finance, the difficulties have been greater, as the necessary details for the divisions of a Province are not published for recent years. The figures for 1938-39 are the latest available for such details. What we have done is to divide the revenues for 1944-45 in the proportion in which those for 1938-39 stood so far as the divided areas are concerned. This does not affect those Provinces where no division is involved. We shall now refer to a few leading items to show the methods by which estimates are made.

Central Excise Duties: These are levied on more than 12 articles. In the case of several of these articles, viz., Sugar, Matches, Steel, Tobacco, Coffee, Tea, Coal, it is possible to divide the revenue according to the source of production. Wherever this is not possible, the revenue is divided according to population.

Taxes on Income: We have tried to ascertain the yield of different items of revenue under this head from different Provinces or their divisions. The yield has been divided accordingly. We have omitted Excess Profits Tax and in its place taken the Business Profits Tax which is now levied. The estimated yield from BPT for 1947-48 has been divided in the proportion of their share in the total yield under Taxes on Income.

Salt: This item has been omitted as this tax has now been abolished, though some revenue is expected for some time.

Opium: This revenue will go to the Indian Union as opium is produced in India and is manufactured at the Gazipur Factory in the U.P.

Customs and other sources: It is not possible to have reliable data for other sources of revenue on the basis of which the division could be made. We have therefore adopted the basis of population for the division of the revenue under these items, with the exception of the export duty on jute, the treatment of which is explained below.

Jute Export Duty: The following table gives the yield of the jute export duty in the years 1938-39 and 1944-45.

Table 43. Yield of Jute Export Duty (in lakhs of Rs.)

	1938-39	1944-45	1947-48 (Budget Estimate)
Raw Jute ...	164	44	5,00
Manufactured Jute ...	233	190	
Total ...	397	234	5,00

As has been explained earlier, though Pakistan produces 75% of the raw jute, she has no jute mills. The Indian Union produces about 25% of the raw jute; it has all the jute mills, and sends the bulk of the jute exports of the country through the port of Calcutta. How should the jute export duty be apportioned between the Dominions? If the basis of location is considered, 90% of the jute exports are sent through Calcutta and the Indian Union can take 90% of the jute export duty. But as the Pakistan Government has also imposed a jute export duty at its land frontiers, she too will get about 3 to 5 crores of rupees on the basis of existing consumption of raw jute. If there is a double duty on jute exports as is the case at present, one by Pakistan on raw jute passing by land from East Bengal to West Bengal, and another by the Indian Union on jute exports through Calcutta, both the Dominions will get about Rs. 3 to Rs. 5 crores each. The double duty, apart from being harmful to the industry, may in normal times reduce exports and may give a further spur to the production of substitute synthetics abroad. In view of the interdependence of both the Dominions in respect of the jute industry, we feel that negotia-

Table 44. *Central Revenues: India and Pakistan,* 1944-45
(in lakhs of Rs.)

MAJOR HEADS OF REVENUE	Share of the Indian Union	Share of Pakistan	Total
1. Customs ...	29,32	8,97	38,29
2. Central Excise Duties ...	32,87	5,27	38,14
3. Corporation tax and taxes on income other than Corporation tax:			
(A) Ordinary collections...	52,95	4,43	57,38
(B) Surcharge ...	32,73	2,84	35,87
4. Business Profits Tax ...	11,00	1,00	12,00
5. Civil Administration ...	1,91	51	2,48
6. Currency and Mint ...	9,60	2,86	12,46
7. Civil Works ...	59	18	77
8. Interest ...	1,37	41	1,78
9. Opium ...	1,04	Nil	1,04
10. Receipts from States ...	46	14	60
11. Receipts in connection with war ...	14,32	4,28	18,60
12. Net receipts from Posts and Telegraphs ...	7,89	2,36	10,25
13. Net receipts from Railways	24,64	7,36	32,00
14. Deduct share of income-tax distributed to Provinces ...	-21,25	-5,31	-26,56
TOTAL ...	200,44	35,29	235,63

tions on the basis of an equitable share in jute export duty may prove fruitful. We have made our estimates on the basis of an equal division of the existing jute export duty. We have further divided the estimated yield of jute export duty for each Dominion between the Centre and the Provinces according to the existing arrangement by which the Provinces get 62½% of the duty. So far as the Indian Union is concerned the Provincial share is credited wholly to West Bengal, as it is not possible to ascertain the shares of other neighbouring Provinces, which are however small.

It must be added, however, that the position of this source of revenue will in future depend on the arrangements that may be made between the two Dominions regarding the same.

Subvention to Provinces: We have excluded the existing subventions given by the Centre to the Provinces. It will be for the new Dominions to decide as to how much help should be given to their constituent units.

In the light of the above observations, it will be easy to follow the estimates in Tables 44, 45 and 46.

Table 45. Provincial Revenues: India and Pakistan
(in lakhs of Rs.)

Province:	
W. Punjab	14,95
Sind	8,80
N.W.F.P.	1,84
E. Bengal	18,84
Sylhet	1,00
Br. Baluchistan	20
Total Pakistan ...	45,63

E. Punjab	8,06
U.P.	27,47
Bihar	12,75
Orissa	3,18
Assam (Sylhet)	4,92
C.P. and Berar	9,62
Bombay	33,67
Madras	41,24
W. Bengal	14,78
Total India: ...	155,69

Table 46. Total Central and Provincial Revenues of India and Pakistan (in lakhs of Rs.)

DOMINION	Share in Provincial Revenues	Share in Central Revenues	Total	Total population in thousands	Revenue per head Rs	As.	Ps.
India ...	155.69	200.44	356.13	2271.85	15	12	2
Pakistan ...	45.63	35.29	80.92	68.790	11	12	3

The above figures show that the revenue resources of India are much greater than those of Pakistan. This disparity is more striking in the case of Central Revenues than in the case of Provincial Revenues. The Provincial Revenues of the two Dominions are roughly in proportion to their population. It may be noted that Provincial sources of revenue are comparatively static ; Central sources such as taxes on income and customs are expanding sources of revenue.

Pakistan is more agricultural and rural ; India has more industries and greater urban population. Expanding sources of revenue such as those referred to above are therefore to be found more in India than in Pakistan.

Table 47. Estimated Revenues of the Central Government of the Dominion of India

(in crores of Rs.)

MAJOR HEADS OF REVENUE	Estimates on the basis of Accounts of 1944-45 of Undivided India (1)	Estimates on the basis of the Revised Estimates of 1946-47 of Undivided India adjusted in the same proportion as in col. 1 (2)	Estimates on the basis of the Budget Estimates of 1947-48 of Undivided India adjusted in the same proportion as in col. 1 (3)	Estimates on the basis of the Interim Budget of Indian Union for 7½ months from 15-8-1947 to 31-3-1948 adjusted to a period of 1 year (4)
Customs	28,80	33,05	31,24	80,80
Central Excise	32,87	37,75	35,40	35,32
Taxes on Income	96,78	105,75	110,55	141,60
Opium	1,04	1,90	1,00	1,40
Interest	1,37	1,10	1,04	1,05
Net contribution from Posts and Telegraphs ...	7,89	8,81	8,33	3,34
Net contribution from Railways	24,64	5,61	7,50	Nil
TOTAL ...	199,92	220,35	208,27	236,73

SOME COMPARISONS WITH OTHER ESTIMATES

In the above analysis of the revenue resources of the Indian Union we have tried to indicate the long-term trends on the existing basis of taxation. Adjustments will have to be made for changing circumstances as well as for changes in taxation. Besides, constitutional changes may involve changes in the financial relations between the Centre and the Provinces.

It would be of interest however to compare our estimates of the revenue resources of the Indian Dominion, particularly of the Central Government, with recent official estimates both of Undivided India and of the Indian Union. In Table 47 we have compared our estimates of the revenue of the Central Government of the Indian Union based on the accounts of the year 1944-45 of Undivided India with more recent official figures. For this purpose, we have taken the revised estimates of 1946-47 and the budget estimates of 1947-48 presented to the Indian Legislature by the Finance Minister in March 1947. These figures were for Undivided India. We have adjusted these figures for the Dominion of India in the same proportion in which the different heads of revenue stand to one another in our estimates for 1944-45. We have further taken estimates of the Interim Budget recently introduced by the Hon. Mr. Chetty for the Indian Union for 7½ months from 15th August 1947 to 31st March 1948. We have adjusted these figures for a period of one year for the purpose of comparison. Table 47 gives these estimates in a comparable form.

The excess of about Rs. 25 crores in the estimates based on Mr. Chetty's Budget over the Budget Estimates made by Mr. Liaqat Ali Khan in March 1947 can be accounted for as under: (a) There were obvious underestimates in the figures presented in March 1947. Complaints were made regarding this by the business community in particular. This was particularly true of Customs revenue which is now shown at more than double the figure. (b) The net contribution from railways was shown as Rs. 750 lakhs in the budget for Undivided

India. As now revealed by the Transport Minister in the Interim Railway Budget, this contribution is not available.

In order to make these estimates comparable we had to make some adjustments. In the estimates of Mr. Chetty under the head taxes on income, the figure is Rs. 118 crores. This includes Rs. 29.50 crores under Excess Profits Tax receipts. As we have excluded the E.P.T. from our basic estimates as shown in column (1), we have deducted this item from Mr. Chetty's figure in the first instance, thus getting an estimate of Rs. 88.5 crores from taxes on income for 7½ months. Adjusting this for 12 months we get the figure of Rs. 141.6 crores. In our basic estimates we have excluded revenue from salt. We have therefore removed this item from the other estimates also, though an estimate of Rs. 50 lakhs on the salt revenue is included in Mr. Chetty's estimates.

So far as the revenues of the Central Government of Pakistan are concerned, we may hazard an estimate as under: In the budget of Undivided India as given in March 1947, the total revenue was Rs. 279.42 crores. Of this Rs. 40 crores were for E.P.T. If we deduct this in the first instance, and further deduct the estimated revenue of the Indian Union for 1947-48 as shown in column 3, viz. Rs. 208.27 crores, we are left with a figure of Rs. 31.15 crores which may be taken to be the revenue of the Pakistan Central Government. In view of recent events, particularly the migration of the non-Muslim business community from Western Pakistan, the yield from some of the sources of revenue may go down and its revenue therefore may not be more than about Rs. 30 crores.

EXPENDITURE

So far as expenditure of either Dominion is concerned, it is difficult to discuss the same under the present abnormal conditions through which we are passing. Though the estimates of the expenditure of the Central Government of the Indian Union from the date of partition upto 31st of March 1948 were presented to the Assembly in November 1947, the

Central Government of Pakistan has not yet done so, and therefore no detailed comparisons are possible.

We shall however review briefly the more important items of expenditure. The following table gives the estimates under each major head of expenditure for the period 15th August 1947 to 31st March 1948.

Table 48. *Expenditure of the Central Government of th Indian Empire from* 15-8-47 *to* 31-3-48

(in lakhs of Rs.)

Direct Demands on Revenue (cost of collection)	533
Irrigation	7
Debt services	2052
Civil Administration	2024
Currency and Mint	120
Civil Works	621
Pensions	189
Miscellaneous:	
Expenditure on refugees	2200
Subsidy on imported foodgrains	2252
Other expenditure	230
Grants to Provinces	45
Extraordinary charges	192
Defence Services (net)	9274
Total expenditure	197,39

DEFENCE

As in the past, Defence remains the largest single item of expenditure and absorbs about 50% of the Central revenues. Because of the Punjab tragedy involving mass migrations of millions of people, because of acute political tension consequent on the division of the country, and because of the

breaking up and reconstitution of the Armed Forces of the country into two Dominion Forces, leading to the suspension of the process of demobilisation, it has been decided that the present scale of expenditure will have to continue for some time. Apart from these political factors, the implementation of the recommendations of the Pay Commission has also increased the Defence Expenditure.

Interest and Pensions

According to the terms of the Indo-Pakistan Financial Agreement, the Central Government of the Indian Union has taken upon itself the responsibility of paying interest charges on all the liabilities of the old Government of Undivided India. For the period 15th August 1947 to 31st March 1948, the gross interest payments are estimated to amount to Rs. 30.45 crores. But if the whole year is taken into consideration, we find on the basis of the Budget Estimates for 1947-48 that the gross interest payments amount to Rs. 68.5 crores. Similarly, the expenditure on pensions between 15th August 1947 and 31st March 1948 is estimated to amount to Rs. 189 lakhs, the expenditure for a whole year being Rs. 285 lakhs. Though each Dominion will pay the pensions due in its territory, overseas pensions have to be paid by the Indian Union.

Refugees and Food Subsidy

Besides these fixed charges, other abnormal items of expenditure have arisen out of the partition. Because of the disturbances in the Punjab, and the large-scale migration of non-Muslims from Pakistan into the Indian Union, the Government of the Indian Union has to spend Rs. 22 crores on the relief and rehabilitation of refugees. In addition the East Punjab Government has been given an advance payment of Rs. 5 crores; this amount has been included in the ways and means payment. The long-term problem of the gainful rehabilitation of these refugees has yet to be tackled and the

expenses on that account have not yet been estimated. In the words of the Finance Minister:—"These problems have imposed a heavy burden on the Central Exchequer, the magnitude of which it is not possible to assess at present. The budget of the Central Government for the next few years will be materially affected by this unexpected development in the country. Our whole programme of post-war development will have to be reviewed in the light of this context." Another item of emergency expenditure is that on food subsidies. The division of the country has worsened the food situation. Subsidy on food imports within 7½ months is estimated to cost us Rs. 22,52 lakhs.

Developmental Expenditure

The expenditure on imported food and that on the resettlement of refugees thus absorb Rs. 44½ crores from a total provision of Rs. 104½ on civil expenditure. Out of the remaining amount of Rs. 60 crores, Rs. 5 crores has to be earmarked for tax collections, Rs. 22½ crores for interest charges and pensions, and Rs. 20 crores for civil administration, leaving only Rs. 12 crores for nation-building activities. This amount is only 7% of the total expenditure of the Central Government. The above analysis makes it clear that because of the division of the country, the Government of the Indian Union will not be able to spare large amounts for purposes of schemes of development from its current revenues. There is not much scope for increased taxation, though there is some scope for retrenchment in expenditure which has not yet lost its wartime intensity to any considerable extent. This means that the Provincial Governments will have to be more and more self-reliant in their schemes of planning as they are not to get their existing subventions increased by any large amounts. In other words, both the Central and Provincial Governments will have to rely more on loans than on revenue for development schemes. Whereas schemes which are likely

to be productive, in the sense that they may yield enough receipts to pay the interest on the loans incurred for them, may be financed in this way, other schemes such as those for education and health, which are not directly remunerative, may take a longer time because of want of adequate resources from current revenues.

IX. ASSETS AND LIABILITIES

Financial Agreement with Pakistan

The Financial Agreement with Pakistan which was announced in the Legislative Assembly on 12th December 1947 lays down certain broad principles or formulae according to which the assets and liabilities of the Central Government of Undivided India will be divided between the Dominions of India and Pakistan. Detailed figures of the actual amounts that will be involved have yet to be worked out in the light of the method adopted. Though complete data for the application of this method of division are not yet available, it is proposed to apply this method with a view to making an estimate of the share of each Dominion. The figures regarding the different items of assets and liabilities as on 15th August 1947 are also not yet available. Our estimates are therefore based on the revised estimates for 1946-47 as published in the explanatory memorandum to the Budget of the Government of Undivided India, dated 1st March 1947.

The liabilities may be divided into three parts: (i) those which have corresponding assets, yielding interest; (ii) cash and securities held on Treasury Account; and (iii) liabilities not covered by assets, known as uncovered debt. The interest-yielding assets amounted to a thousand crores on 1st March 1947. The uncovered debt was Rs. 867 crores. The cash and securities held on Treasury Account amounted to Rs. 514

crores on 1st March 1947. This was reduced to about Rs. 400 crores on 15th August, and this latter figure has been adopted in the Agreement.

Interest-yielding Assets

The most important of these assets are the physical properties of railways and other commercial departments such as Posts, Telegraphs and Telephones. It has been decided that each Dominion should own the physical assets of these commercial departments according to their location in their respective Dominions. So far as the liabilities are concerned it has been laid down that the Book Value of the railways in each Dominion should form the liability for that Dominion, except that in the case of strategic railways, it has been agreed to reduce the Book Value by 50%. The total capital at charge on 1st March 1947 for Indian railways was Rs. 808 crores. According to the Book Values of the railways located in Pakistan, the liability of Pakistan would be Rs. 152 crores. The strategic railways are located in Pakistan and have cost Rs. 32 crores. According to the above formula, Pakistan would be charged with only 50% of this liability and therefore the total share of Pakistan in the railway debt would be assessed at Rs. 136 crores, the remaining Rs. 672 crores would be the share of the Indian Union. It may be added that so far as the movable property of railways such as rolling stock is concerned, it has been decided that the division should be on the basis of mileage-cum-traffic, which means that the rolling stock will be divided in the proportion of their relative requirements.

So far as the other commercial departments like Posts and Telegraphs are concerned the same basis of division as in the case of railways applies. As the data for the purpose are, however, not available, we propose to divide these assets and liabilities in the proportion of the number of post offices in each Dominion. On this basis we estimate that the share of

Table 49. Estimates of Division of Assets and Liabilities (Rs. in crores)

ITEM	Share of the Indian Union.	Share of Pakistan	Total	Basis
Capital at charge on railways ...	672	136	818	Book Value according to location; strategic railways reduced to half.
Capital advanced to commercial departments ...	37	11	48	Location of Post and Telegraph offices.
Capital advanced to Provinces ...	49	8	57	Location of Provinces
Capital advanced to Indian States.	15	2	17	Location of States
Debt due from Burma ...	41	7	48	17½%
Deposit with H.M.G. for Rly. liabilities ...	18	4	22	Same as for railways.
Total interest-yielding obligations.	832	168	1000	
Cash and Securities held on Treasury Account ...	325	75	400	The Agreement
Uncovered debt ...	714	153	867	17½%
Total ...	1871	396	2267	
Advance for Ordnance Factories & Security Press.		6 402		

Pakistan will be Rs. 11 crores as against Rs. 37 crores of the Indian Union.

So far as the capital advanced to Provinces and Indian States is concerned, we have assumed that each Dominion will be responsible for the Provinces and States located in its area and have divided the liabilities accordingly. Regarding the debt due from Burma, no reference is made in the Agreement. We have, however, divided this amount by assuming the share of Pakistan to be 17½% which is the percentage adopted in another case. Regarding deposits with H.M.G. for railway liabilities, we have adopted the same ratio of division as in the case of the main railway debt. We thus arrive at a division of interest-yielding assets and corresponding liabilities of the total value of Rs. 1000 crores into Rs. 835 crores for the Indian Union and Rs. 165 crores for Pakistan.

Other Assets and Liabilities

So far as the cash and securities held on Treasury Account are concerned, the Agreement has laid down that Pakistan should get Rs. 75 crores out of Rs. 400 crores as on 15th August 1947. Regarding uncovered debt which was Rs. 867 crores on 1st March 1947, Pakistan is to be assessed at 17½% according to the Agreement. The uncovered debt was mainly for wars and famines. The only asset against this is military stores; it has been agreed that Pakistan should get one-third of the military stores as existed on 15th August in Undivided India. As ordnance factories cannot be divided and are located in the Indian Union, it has been agreed that the Indian Union should advance the necessary sum to erect such factories in Pakistan. The same procedure will apply to the Nasik Security Printing Press, which will serve Pakistan till a similar press is established in Pakistan, for which the Indian Union will advance the necessary amount to it. The total of these two advances is estimated at Rs. 6 crores. We have not taken into account the liability for pensions,

for which the necessary data are not available.

The above estimates are brought together in Table 49, which will reveal the position of the division of assets and liabilities at a glance.

According to the above estimate which, as we have said above, is subject to correction in the light of actual facts, the liability of Pakistan is Rs. 402 crores. The procedure regarding the payment of this liability and the position of the existing holders of Government Securities has been laid down as under:—

METHOD OF PAYMENT BY PAKISTAN

The Government of the Indian Union will be the debtors to the holders of securities of the Government of Undivided India. In other words, all those who hold Government Securities issued by Undivided India, whether they are nationals of the Indian Union or of Pakistan will continue to receive their interest, and in the case of terminable loans also the principal, from the Government of the Indian Union as hitherto. The Government of Pakistan will pay its liability as indicated above with interest in equal annual instalments over a period of 50 years beginning with the fifth year from the date of partition. The interest will be calculated on the basis of the average yield over a period of two years preceding the date of partition of the rupee and sterling securities of the Government of India.

CURRENCY ASSETS*

So far as the currency assets are concerned, their division is governed by the Pakistan Monetary System and Reserve Bank Order issued by the Governor-General on the eve of partition as modified by the Agreement. In the first place, the notes issued in Pakistan will be ascertained. This will be

* For a discussion of this, see also chapters V and VII.

done in the following manner. The Reserve Bank will issue notes with the inscription "Government of Pakistan" on 1st March 1948 for circulation in Pakistan. These Pakistan notes will be exchanged for the current Indian notes, and it will be possible by 30th September to ascertain the number and value of Pakistan notes which have gone into circulation in this manner. The assets in the Issue Department of the Reserve Bank of India will be divided in the proportion in which the note circulation of Pakistan stands to the total notes in circulation, which will be ascertained in the above manner as on 30th September 1948. The different types of assets such as silver, bullion, sterling securities, rupee securities and gold will be divided in the proportion in which these types are held in the Reserve Bank. By the Agreement, it has been further laid down that Pakistan will be able to obtain an additional share of sterling balances upto a figure to be calculated according to a formula laid down in the Agreement. These additional sterling balances will be sold to Pakistan from the frozen account in London in return for India rupees upto 31st December 1967. This method provides some elasticity for Pakistan to obtain additional foreign exchange, if necessary.

It is obvious from the foregoing summary of the Agreement that different methods and principles have been applied in the division of assets and liabilities to different categories. We may assume that there must have been some give and take with reference to each category and that the division actually effected indicates a compromise. The main feature of the Agreement, which is however open to criticism, is the method by which Pakistan will discharge its liabilities. In order to bring out the defects of the arrangement we shall examine its effects in the short run and in the long run separately.

Effects in the short run

For the next few years, Pakistan will have no responsibility for making any payment regarding its agreed liabilities. It

will have all the assets, in the meanwhile, some of which will continue to earn interest, besides giving valuable services. During the same period, the Indian Union will continue to pay interest to holders of Government Securities in Pakistan. This payment will depend on the amount of such securities held in Pakistan. The gross payment on account of interest on all kinds of debt as budgeted for Undivided India for 1947-48 was more than Rs. 68 crores. Even allowing for a most conservative estimate that only one-tenth of the holders of Government Securities are in Pakistan*, the payment of interest to such holders will be about Rs. 7 crores a year. This means that the Indian Union will have to export to Pakistan goods and services worth this amount during the coming years without any equivalent.

EFFECTS IN THE LONG RUN

From the fifth year onwards when Pakistan is expected to give its instalments towards the repayment of this debt with interest, the position will be that Pakistan will have to export to the Indian Union goods of the value of such instalment each year. As this instalment will be in the neighbourhood of Rs. 15 crores, according to the above estimate, and as India will still continue to pay interest to the holders of Securities in Pakistan at the rate of about Rs. 7 crores, there will be a net receipt of Rs. 8 crores by India. To the extent to which there are changes in the holding of Pakistan nationals of Indian Securities some adjustment will take place. It must be remembered that these are estimates, but the broad general effect is obvious.

INTER-GOVERNMENTAL DEBTS

It would not be inappropriate to refer to the fate of inter-Governmental debts between sovereign states. The history of

* In chapter VII, we have shown that Pakistan's share of bank deposits and advances etc. was one-tenth of the total for Undivided India. We have adopted the same share for the existing holders of the public debt of Undivided India.

international lending shows that the creditor countries have invariably lost large amounts invested by them in debtor countries, because of the inability of the debtor countries to pay or because of political changes or other unforeseen circumstances. The Inter-Allied debts after the first World War for which solemn pacts were made for repayment over a long period were not repaid after the first few years. The debt incurred by the U.K. from India and other Empire countries during the war, which have taken the form of sterling balances has already caused serious difficulties, and proposals for scaling down the amounts have been made by responsible parties in the U.K. We are not in a position to say now how much of this frozen credit of India will be really available for our use. In the case of the debt due from Burma, it would be interesting to obtain from the records of the Government the actual position, and to know whether the Government of India expect to realise the outstanding debt from Burma in any reasonable course of time. The U.K. on the other hand was able to recover the amounts which it loaned to the Government of India in the past, mainly because it was the ruling country and it had merely to take the instalments from the dependent country. Fifty years is too long a period for the repayment of any debt, particularly between two independent Governments. Changes in economic circumstances, changes in political power and changes in mutual attitude may go against such repayment, and no one can foresee today the nature or magnitude of such changes over a long period.

Proposed Safeguards

It may be suggested that in order to safeguard against any such unforeseen difficulties and to secure the economic interests of the people of the Indian Dominion, who are now asked to pay in order that Pakistan may enjoy the fruits of separation, the following arrangements ought to have been made:—

1. The Government of Pakistan should mobilise the Securities of the Government of India held by its nationals. They

should be exchanged for Pakistan Securities of equivalent value. These securities should be handed over to the Government of the Indian Union, the liabilities of Pakistan to that extent being treated as cancelled. This would, on the one hand, reduce the liabilities of Pakistan to the Indian Union without any cost to Pakistan, except for printing the securities and at the same time, reduce the interest charges that the Government of the Indian Union will have to pay to Pakistan nationals hereafter. The Government of Pakistan would be required to pay interest to its own nationals on the securities issued by them. That amount would however take the place of a corresponding reduction in its instalments otherwise due to India.

2. In view of the fact that Pakistan is likely to have a favourable balance of trade with the Indian Union to the extent of about Rs. 47 crores a year, the assumption about the inability of Pakistan to pay its agreed debt to India soon is not correct. The Agreement needs modification providing for a speedy settlement of the debt by means of resources which Pakistan is known to possess in the form of a large net exportable surplus.

3. An agreement on joint economic and commercial policy along with a customs union in mutual interest ought to have been made an essential corollary of this type of Financial Agreement which involves repayment of debt to the Indian Union over a large number of years. Such an agreement on economic and commercial policy would of necessity have led to an agreement in political and defence matters. Under the present arrangement the making of such an agreement has been left to goodwill, and it has been announced that the two Governments have agreed to initiate discussions regarding a common economic policy. It may be pointed out that the Anglo-American loan given after World War II contained provisions by which the U.K. agreed to certain trade arrangements with the U.S.A. as a condition of the loan.

4. A settlement of the question of the division of assets

and liabilities of the Punjab and Bengal between the newly created Provinces ought to have been a part of this Agreement. These two provinces have been the greatest sufferers by the partition, and their problems still await solution by the Arbitral Tribunal. It would have been possible to get satisfactory terms for East Punjab and West Bengal, if the settlement of their claims was included in the Financial Agreement.

Conclusion

It is obvious from the above that the Financial Agreement needs drastic revision in several respects to secure the legitimate interests of the tax-payer of the Indian Union. When the full implications of the Agreement are realised, it is hoped that the revision urged here will be demanded by all concerned.

X. SUMMARY AND CONCLUSION

Summary

The following is a summary of the main tendencies which have been established in the foregoing pages.

Population

Three-fourths of the entire population of Undivided India is in the Indian Union which covers only two-thirds of the entire area.

Whereas two-thirds of the total population of Pakistan is concentrated in East Bengal it accounts for only one-fourth of the total area of Pakistan.

In the Indian Union the States cover about 40% of the total area, but have only 23% of the population.

The population of the Indian Union is relatively more urban than that of Pakistan.

The communal problem is not solved by the partition. The Indian Dominion had 36.8 million Muslims who formed 12.3% of its population. Pakistan had 19.4 million non-Muslims who formed 27% of its population. Allowing for the maximum exchange of population due to the Punjab tragedy, Muslims in India will be 31.6 millions or 10.5% of the population. The number of non-Muslims in Pakistan will go down to about 15.2 millions who will form 18.6% of its total population. As a result of the Punjab tragedy, the population in Western Pakistan becomes predominantly Muslim and in Eastern Punjab predominantly Hindu and Sikh. But the inter-mixture of population is still so great, that a complete transfer is impossible.

AGRICULTURE

Both the Dominions depend on agriculture as their principal occupation. Pakistan is favourably situated inasmuch as 36% of its cultivated area has irrigation facilities ; in the Indian Union only 18% of the cultivated area has a similar advantage. Most of the irrigated area of Pakistan is located in Western Pakistan. Western Pakistan has a surplus of food, mainly wheat, but Eastern Pakistan is largely deficit in rice. The Indian Union has a deficit of food. Pakistan has a surplus of raw cotton and raw jute, both of which are required by the Indian manufacturer.

The yield of milk by an average milch cow or milch buffalo in Western Pakistan is much higher than that of a cow or buffalo in the Indian Union. Pakistan has enough raw materials for the hides and skins industry, but has very few tanning factories of the modern type. This will affect her relative importance in the exports of hides and skins.

INDUSTRIES

The Indian Union has the major share of industries. The Indian Union has 86% of the total industrial establishments

of Undivided India and 90% of the total industrial population; the size of industries in the Indian Union is larger; it has more of perennial factories and less of seasonal factories and contains a diversity of the major industries in the country.

Pakistan is industrially backward. It has less than 10% of the industrial establishments of India and less than 8% of the industrial population. The size of her industries is comparatively small; it has the larger share in seasonal factories. Some of the important industries are not to be found in Pakistan or have a meagre place in her economic structure.

TRADE BETWEEN INDIA AND PAKISTAN

Pakistan is in a position to supply some food, mainly wheat, to the Indian Dominion. India will also require some raw cotton from Pakistan. Pakistan depends on India for the supply of cotton piece-goods. Pakistan is also deficient in sugar, and India would be able to supply her requirements. In the matter of coal, the dependence of Pakistan on the Indian Dominion is great. Similarly, Pakistan will have to obtain steel and cement from the Indian Dominion. So far as jute is concerned, whereas the Indian mills require Pakistan raw jute, the jute grower of Pakistan has no other market of importance and is dependent on the Calcutta manufacturer for the disposal of his product. To some extent he is also dependent on the Calcutta merchant for the export of his produce to foreign countries. Considering all things Pakistan is likely to have an excess of exports over imports from the Indian Union to the extent of about Rs. 47 crores a year.

TRADE WITH OTHER COUNTRIES

The share of the export trade of Undivided India is estimated to be in the ratio of 80 : 20 between the Indian Dominion and Pakistan. The share of the import trade is similarly estimated to be in the ratio of 85 : 15. Pakistan has a favour-

able balance of trade both with the Indian Dominion and other countries. The Indian Dominion has an adverse balance of trade both with Pakistan and other countries. The trade of Pakistan is predominantly with the Indian Union. The Indian Union has much more trade with other countries compared with her trade with Pakistan. The recent suggestion to develop the export trade with a view to earning foreign exchange will have to be made more definite; unless production is increased in those commodities for which there is a market abroad, the possibilities of greater exports are limited. Our capacity to purchase imports will be limited by the value of our export trade.

Our foreign exchange resources in the form of sterling balances will not be utilised for current imports. They will be reserved for the imports of capital goods. Because our foreign exchange resources for the import of current requirements are limited, restrictions on imports have been recently imposed. We shall also have to reduce our imports from the U.S.A. as we are dependent for the supply of dollars on the Empire Dollar Pool and the prevailing dollar crisis in the U.K. will have its effect on us.

The amount of sterling balances which will be available to us from time to time will depend on the agreement with the U.K. The share of Pakistan in this has been defined as the ratio of note circulation in Pakistan as on 30th September 1948; Pakistan can obtain some more sterling from the balances on payment of an equivalent amount of rupees to India.

Currency, Banking and Insurance

The Government of Pakistan will have its own currency as soon as possible and in the meanwhile provisional arrangements have been made for the use of the existing currency in Pakistan and for the Reserve Bank of India to act as the Central Bank for Pakistan, till the Government of Pakistan is able to make its own arrangements by September 1948.

So far as banking is concerned the position of Pakistan is

somewhat weak, and it has been made weaker by the Punjab disturbances, which have led to a flight of capital from and closing down of banking offices in Western Pakistan. The Clearing House Returns and recent banking statistics show the comparatively weak position of Pakistan in banking and business activity. The same remarks apply to insurance.

Transport

The partition has resulted in the division of railway mileage ; the Dominion of India will have 24,565 miles, Pakistan having 6,748 miles of which 1,817 will represent strategic railways. The railway budget (1947-48) of the Indian Union has already shown a deficit. The railway budget (1947-48) of Pakistan is bound to show a deficit.

Regarding shipping the position of Undivided India has been unsatisfactory. With a 3% share of the world's total trade, Undivided India had only .24% of the world tonnage. Indian shipping handles about 25% of the coastal trade and 2% of the overseas trade. The share of Pakistan in the tonnage is meagre. A beginning has been made by the registration of a Muslim company in Karachi.

The same is true about civil aviation. Most of the Air Line Companies are in India and Pakistan will have to develop its own Air Ways in due course.

Public Finance

Our estimates of the resources of the two Dominions show that the Central Government of the Indian Union would have a revenue of Rs. 225 crores as against Rs. 35 crores in Pakistan. The revenue of the Provinces in the Indian Dominion is estimated at Rs. 156 crores as against Rs. 46 crores in Pakistan. Whereas the provincial shares are roughly in proportion to population, the position of the Central Government of Pakistan is rather weak. It is difficult to make an estimate of the expenditure requirements of the two Dominions. But if we

take into account the principal item, viz. defence services, for which the Indian Dominion has to spend Rs. 93 crores in 7½ months from 15th August 1947, and even if we estimate that Pakistan will require at least one-third of this amount for defence expenditure for the whole year, almost the entire revenue of the Central Government of Pakistan will be swallowed up in this single item only. Pakistan will therefore have to find other sources of revenue on the one hand and economise her public expenditure on the other.

Assets and Liabilities

This difficult position of Pakistan was exploited in the division of assets and liabilities which was recently announced. Pakistan is assumed to be not in a position to undertake immediately the liabilities which are assigned to her by mutual agreement. They will take the form of a debt to the Indian Dominion to be paid over a period of 50 years beginning from the fifth year since the partition.

An estimate of the liabilities of Pakistan shows that she will owe to the Indian Union about Rs. 400 crores. An examination of the method of repayment as laid down in the Agreement, has revealed the fact that it is not satisfactory and that therefore adequate safeguards for the same should be provided. A revision of the Agreement has been suggested to secure the legitimate interests of the Indian taxpayer, as Pakistan would be able to repay the debt soon with the help of her net exportable surplus, estimated at Rs. 47 crores a year.

Conclusion

The foregoing review of some of the more important aspects of economic life affected by the partition reveals the fundamental economic interdependence between the two Dominions. The existence of an interdependent economy throughout Undivided India, now for nearly two centuries, has created a state

of affairs which cannot be easily set aside. It is obvious that any attempt at economic warfare or at obtaining economic advantage by one at the cost of the other would result in a series of other forces of a similar nature, involving disastrous consequences to the economic structure of both the Dominions and making their progress difficult. It would have been desirable, if this need was recognised in the Financial Agreement recently made by an explicit undertaking in this connection providing for a joint economic policy by the two Dominions. It is to be hoped however, that the good-will created by this Agreement will be translated into further economic bonds between the two Dominions by the evolution of such an agreed trade and economic policy designed in the mutual interests of both. If however, economic warfare is forced on us, we should be prepared for it in advance.

APPENDIX I

NOTE ON STATISTICS

The statistics used in this brochure are mainly compiled from Government publications. The data furnished by these publications, however, are inadequate as they are collected primarily for administrative purposes. During the war both the Government of India and the Provincial Governments withheld the publication of such important annual reports as the "Statistical Abstract for British India" and the departmental Administration Reports. Even the Census Report for 1941 has been considerably abridged and data for such important items as occupational distribution have not been given. These deficiencies had to be tided over by making estimates, wherever necessary. The important statistical sources consulted for each chapter are shown below:—

I. POPULATION AND AREA

Population statistics have been compiled from the "Census of India" 1941, which has also been the basis on which the political division of the country was effected. The population of the country must have increased considerably during the past seven years, but it is assumed that this increase has been spread evenly over the two Dominions. District- and Tehsil-wise figures have been compiled according to the boundaries fixed by the Partition Plan of 3rd June 1947 and the Award of the Radcliffe Boundary Commission. As regards the transfer of population as a result of communal disturbances, especially in the Punjab, the estimates presented by the Minister for Rehabilitation and Resettlement of the Indian Union to the Constituent Assembly have been used.

The population statistics given in this chapter provide the

basis for estimates in the case of some important issues discussed in the chapters on public finance and trade.

II. NATURAL RESOURCES

(A) *Agriculture and Livestock*:—The latest and detailed District- and Tehsil-wise figures are available only for the year 1938-39. These have been taken from the "Agricultural Statistics of India" (Volumes I and II) for the year 1938-39. Figures of sugar production are adjusted on the basis of the "Report of the Panel on Sugar Industry." Figures of Jute production are taken from the "Annual Report of the Committee of the All-India Jute Manufacturers' Association," for the year 1946. Figures for coffee are taken from "Statistics relating to India's War-effort." The other publications consulted are "Indian Tea Statistics," 1943 and "Report on the Marketing of Tobacco," 1941. The livestock resources for the dairy industry have been compiled from "Indian Livestock Statistics" 1940, while livestock resources for the hides and skins industry have been compiled from the Marketing Reports on Hides and Skins issued by the Government of India.

(B) *Minerals*:—The data relating to the production of chief minerals in India are taken from the journal "Indian Minerals" (Vol. I, No. 1) and relate to the year 1944.

III. INDUSTRIES

The statistics relating to industrial establishments and employment are taken from the biennial report "Large-Scale Industrial Establishments in India, 1943." Though this report was not published because of war-time paper shortage, it was not confidential, and it was made available to one of the research students of the School of Economics by the Office of the Director General of Commercial Intelligence and Statistics, Calcutta. The latest published report is for 1941.

VI. TRANSPORT

(*a*) *Railways*: The data supplied in Railway Budget books of the Government of India have been adjusted according to the terms of the Financial Agreement between India and Pakistan.

(*b*) *Shipping*: "Report of the Reconstruction Policy Sub-Committee on Shipping" 1947. Estimates of division are made on the basis of tonnage and location of the companies owning the ships.

(*c*) *Civil Aviation*: "Indian Skyways" a monthly publication. Pakistan's share has been worked out on the basis of location.

VII. CURRENCY AND BANKING

The "Pakistan Monetary System and Reserve Bank Order" 1947 gives the details of the arrangement by which the Reserve Bank of India will continue as the Central Bank of Pakistan until Pakistan has its own currency and banking system.

The banking position has been analysed mainly from three points of view:—

(*a*) The number of offices of scheduled and non-scheduled banks in both the Dominions.

(*b*) Assets and liabilities of scheduled banks (from weekly Statements on the Position of Scheduled Banks issued by the Reserve Bank).

(*c*) Clearing House Returns: On the basis of the Reserve Bank of India Report on Currency and Finance for 1946-47.

Regarding (*a*), many offices in Pakistan have since closed down or migrated to India. The Reserve Bank states that the figures relating to (*b*) are provisional and complete information is not available for Pakistan.

VIII. REVENUE AND EXPENDITURE

Statistics of public finance have been compiled from the budgets of the Central and Provincial Governments. As the latest income-tax report available was only for the year 1944-45, the estimates relating to Central and Provincial finances had to be made initially for that year and on that basis extended to the later years. Our estimates have been compared with those of the Interim Budget of the Central Government of the Indian Union for a period of 7½ months between 15th August 1947 and 31st March 1948. It has been found that our estimates approximate to the latter in most cases. The main purpose of the chapter, however, is to show the long-term tendencies in the financial structure of Central and Provincial Governments in both the Dominions on the basis of existing rates of taxation.

IX. ASSETS AND LIABILITIES

The Financial Agreement between the Government of India and the Government of Pakistan, which has been analysed in detail, enunciates the principles on which the division of the Public Debt of the Central Government of Undivided India between the two Dominions will be made. Applying these principles of division to the various categories of our Public Debt as given in the Revised Estimates for 1946-47, the latest available data, we have worked out the probable shares of each Dominion.

APPENDIX II

List of Tables

APPENDIX III *(continued)*

INDUSTRY	INDIAN UNION	PAKISTAN	HYDERABAD	KASHMIR	TOTAL
II. Engineering					
9. Coach-building ...	18.5	2.2	—	—	20.7
10. Dockyards	12.9	0.4	—	—	13.3
11. Electrical Engineering	10.4	0.7	—	—	11.1
12. Electrical Generating	8.6	2.7	1.0	—	12.3
13. General Engineering...	102.3	14.4	1.7	—	118.4
14. Kerosene Tinning ...	7.4	1.2	—	—	8.6
15. Metal Stamping ...	8.5	—	1.3	0.6	10.4
16. Railway Workshops...	115.6	21.8	3.3	—	140.7
17. Ship-building ...	35.1	—	—	—	35.1
18. Steel Trunks, etc. ...	2.5	—	—	—	2.5
19. Tramway Workshops	2.4	1.0	—	—	2.5
20. Miscellaneous ...	14.8	2.7	0.4	0·3	18.2
TOTAL ...	339.0	47.1	7.7	0.9	393.8

APPENDIX III (*continued*)

INDUSTRY	INDIAN UNION	PAKISTAN	HYDERABAD	KASHMIR	TOTAL
III. Minerals and Metals					
21. Foundries ...	6.9	4.3	—	—	11.2
22. Iron and Steel ...	60.9	—	—	—	60.9
23. Copper Smelting ...	1.7	—	—	—	1.7
24. Lead Smelting ...	0.9	—	—	—	0.9
25. Mica	0.7	—	—	—	0.7
26. Petroleum Refineries	2.5	1.4	—	—	3.9
27. Miscellaneous ...	9.7	2.1	2.1	0.1	14.0
TOTAL ...	83.3	7.8	2.1	0.1	93.3

APPENDIX III (continued)

INDUSTRY	INDIAN UNION	PAKISTAN	HYDERABAD	KASHMIR	TOTAL
IV. *Food, Drink and Tobacco*					1.2
28. Bakeries, etc. ...	3.2	0.7	0.3	—	4.2
29. Breweries ...	3.1	0.5	0.3	—	3.9
30. Coffee Works ...	5.0	—	A	—	5.0
31. Dairy Products ...	0.5	1.0	0.1	—	1.6
32. Flour Mills ...	4.6	2.0	0.3	A	6.9
33. Food Canning ...	0.4	—	—	—	0.4
34. Ice & Aerated Waters ...	1.8	0.2	0.2	—	2.2
35. Rice Mills ...	40.6	4.5	1.1	—	46.1
36. Sugar Mills ...	83.0	5.4	1.3	—	89.7
37. Tea Factories ...	64.0	7.4	—	—	71.4
38. Tobacco Works ...	26.6	—	3.3	—	29.9
39. Water Pumping Stations ...	2.6	0.1	—	—	2.7
40. Miscellaneous ...	25.5	2.4	0.6	0.2	28.7
TOTAL ...	260.9	21.2	7.7	0.2	293.0

APPENDIX III *(continued)*

INDUSTRY	INDIAN UNION	PAKISTAN	HYDERABAD	KASHMIR	TOTAL
VI. Paper and Printing					
53. Paper mills and pulp.	16.8	—	1.5	—	18.3
51. Printing	36.4	3.6	1.3	0.2	41.5
55. Miscellaneous ...	2.6	0.2	—	—	2.8
TOTAL ...	55.8	3.8	2.8	0.2	62.6
VII. Wood, Stone, Glass					
56. Bricks and tiles ...	21.1	0.1	0.3	—	21.5
57. Carpentry	7.2	1.5	0.2	A	8.9
58. Cement and lime ...	13.3	2.6	2.1	—	18.0
59. Glass	17.9	0.4	0.6	—	18.9
60. Stone dressing ...	0.5	—	4.5	—	5.0
61. Saw mills	13.2	2.1	0.1	—	15.4
62. Miscellaneous ...	9.5	0.9	0.1	0.1	10.6
TOTAL ...	82.7	7.6	7.9	0.1	98.3

APPENDIX III (continued)

INDUSTRY	INDIAN UNION	PAKISTAN	HYDERABAD	KASHMIR	TOTAL
X. *Miscellaneous*					
69. Brushes	1.6	—	—	—	1.6
70. Canvas proofing ...	1.1	—	—	—	1.1
71. Forage presses ...	0.2	A	—	—	0.2
72. Grain crushing ...	0.2	0.8	—	—	1.0
73. Gramophone records...	1.1	—	—	—	1.1
74. Jewelry workshops ...	0.9	—	—	—	0.9
75. Laundries	0.5	—	—	—	0.5
76. Mints	5.9	0.9	0.3	—	7.1
77. Ordnance factories ...	1,15.7	15.8	—	—	1,31.5
78. Reeds and combs ...	0.1	—	—	—	0.1
79. Repairs, etc. ...	0.1	0.1	—	—	0.2
80. Rope works ...	3.4	—	—	—	3.4
81. Rubber	8.4	0.8	—	—	9.2
82. Sappers and Miners workshops ...	3.0	—	—	—	3.0
83. Stores works ...	0.9	—	—	—	0.9
84. Telegraphs works ...	3.7	—	—	—	3.7
85. Industrial Schools ...	1.1	—	—	—	1.1
86. Miscellaneous ...	23.7	0.3	2.2	0.4	26.6
TOTAL ...	1,71 6	18.7	2.5	0.4	1,93.2
GRAND TOTAL ...	22,02.9	1,82.7	62.4	9.4	24,57.4

APPENDIX IV

Estimates of Imports and Exports — Indian Union and Pakistan

Estimated value of commodities that may be supplied by each Dominion to the other on the basis of prices as on 11-12-1947, according to the estimated requirements of each.

Estimated Imports of Pakistan from the Indian Union

COMMODITY	QUANTITY	PRICE	Total Value Crores of Rs.
Sugar	1.75 lakhs of tons	8 as. per lb.	19.4
Cement	1 lakh tons	Rs. 65 per ton	.65
Cotton piecegoods	500 million tons	12 as. per yard	37.5
Coal	3 million tons	Rs. 16/13/- per ton	5
Steel, leather goods, jute manufactures, metals and minerals, glassware and other miscellaneous articles ...	Approximately		12
			74.55

Estimated Exports of Pakistan to the Indian Union

COMMODITY	QUANTITY	PRICE	Total Value Crores of Rs.
Raw jute	.4 million bales	Rs. 170 per bale	85
Wheat	.5 million tons	Rs. 13/1 per maund	17.7
Raw cotton	.8 million bales	Rs. 236 per bale	18.8
			121.5

This shows an excess of exports from Pakistan to the Indian Union of about Rs. 47 crores.

POSTSCRIPT

The object of this postscript is to review briefly the latest developments as reflected in the Central Budgets of the Dominion of India and Pakistan for the year 1948-49 so that the material presented in this book may be brought upto date as far as possible. This is attempted under the appropriate chapter headings of the book, so that it may be easy for the reader to study the relevant portion along with the chapter concerned.

IV. TRADE BETWEEN INDIA AND PAKISTAN

The Standstill Agreement between India and Pakistan provided for the continuance of the then existing free trade from 15th August 1947 when the partition took effect, upto 1st March 1948. This was not fully observed inasmuch as export duties on jute and cotton have been levied by Pakistan in the interval. Besides, there were other impediments to trade between the two Dominions due to communal disturbances and administrative restrictions of a variety of nature. The Government of India have now declared Pakistan to be a foreign country for the purpose of levying customs duties with effect from 1st March 1948. Both the Governments have levied certain new duties in their budgets for 1948-49 and these came into operation from 1st March 1948. We shall now have a customs line across the borders of the two Dominions and trade passing in either direction will have to pay the import or export duties as the case may be. The quantum of trade between the two Dominions which would have existed under conditions of free trade is bound to be affected adversely. The extent of this effect cannot be ascertained in concrete terms. An attempt is however made below to analyse the nature of these effects.

Among the export duties levied by Pakistan we may mention the following:—

1. An export duty on raw jute at Rs. 15 per pucca bale.

2. An export duty on raw cotton at Rs. 60 per bale of 400 lb.
3. A 10% ad valorem export duty on raw hides and skins.
4. A 10% ad valorem export duty on cotton seeds.

It is obvious that these raw materials have been hitherto exported by Pakistan areas mainly to the Indian Dominion, where they are utilised in Indian factories for the purpose of manufacture or in some cases for export in their raw state, as in the case of jute. The nominal object of these duties is to raise revenue for Pakistan at the cost of the Indian or foreign consumer. If the effect of these duties is to lower the price of these commodities before export, part of the incidence of export duties will be borne by the Pakistan grower and/or exporter. To a substantial extent, however, the duty will have to be paid by the importer and will raise the price of the corresponding manufactured commodity in India. Pakistan has also levied an import duty on sugar which she imports from the Indian Dominion. The incidence will obviously fall on the Pakistan consumer who is asked to pay a sum of Rs. 20 per cwt.

The new export duties levied by the Indian Dominion are:—

1. A 25% ad valorem duty on cloth and cotton yarn with the exception of handloom products.
2. Rs. 80 per ton on oilseeds.
3. Rs. 200 per ton on vegetable oils.
4. Rs. 20 per ton on manganese.

About half of our exports of cotton cloth and yarn go to Pakistan. To this extent the duty will fall on the Pakistan consumer. So far as the other commodities are concerned, it is possible that Pakistan will take some of the vegetable products, but she is not likely to take any appreciable quantities of oilseeds and manganese. This shows that the export duties levied by the Indian Dominion are intended for revenue purposes on commodities which are exported to different coun-

tries, the share of Pakistan being small in the same. Whereas the export duties levied by Pakistan are likely to affect the trade between India and Pakistan, the export duties levied by India are of a more general nature and will affect the trade with several other countries.

In spite of the effects of these duties our general conclusion regarding the balance of trade holds good. Subject to variations in figures, Pakistan will have a favourable balance of trade with India, because India is likely to require the commodities in question as before, in spite of the export duties, at least for some time to come.

From another point of view the duties levied by Pakistan appear to be in the nature of bargaining counters. The Finance Minister of Pakistan has made the following observation in his Budget Speech: " We are, however, most anxious to avoid the imposition of any unnecessary barriers of trade between the two Dominions and we shall do our utmost to arrive at a settlement which will be fair to both the parties." Negotiations for a trade treaty between the two Dominions have not so far progressed much. Any settlement will have to take note of these export duties, which will be used to extract concessions from India, if India desires reduction in one or more of these duties.

V. TRADE WITH OTHER COUNTRIES

In connection with the discussion on sterling balances which took place recently, it was necessary for the Government of India to make estimates regarding our balance of payments. As the Agreement on sterling balances is only upto June 1948, these estimates were also made for that period. It has been estimated that during this period India will earn through exports and other sources Rs. 208 crores. During the same period it is expected that India will have to pay Rs. 260 crores for imports and for other services. In this a sum of Rs. 61 crores is assumed for the purchase of food during the six months.

It may be pointed out that in Chapter V we have made estimates only of the balance of trade on private account between India and other countries on the basis of trade figures for the years 1938-39, 1945-46 and 1946-47. These estimates cannot be compared with those given by the Finance Minister which relate to balance of payments. Estimates of balance of payments include not only trade on private account, but also trade on Government account, which is now heavy because of food imports, movement of treasure, payments for services such as shipping and insurance and so on. In the above estimate separate figures of private trade in merchandise are not given.

The recent Agreement with the United Kingdom regarding continuation of the Interim Agreement on sterling balances upto 30th June 1948 was with reference to these estimates. The Agreement provides for the transfer of £18 million or Rs. 24 crores to Account No. I from Account No. II. It may be pointed out that these two Accounts were created when the Interim Agreement was made as explained at pages 55 and 56. The existing balance in Account No. I will be carried forward. This will be subject to some reduction inasmuch as a part of it will be transferred to Pakistan under the Financial Agreement. It is assumed that the amounts thus made available plus some loans from the International Monetary Fund will enable India to meet the anticipated deficit of Rs. 52 crores or £39 million.

Another feature of this Agreement is that whereas in the Interim Agreement, the sterling made available to us in Account No. I was multilaterally convertible ; under the new arrangement a limit has been put to the right of India to such convertibility, viz., £10 million or Rs. 13.33 crores. It is on account of this limit that India will have to seek a loan from the International Monetary Fund, as our balance of payments to the U.S.A. will not be met otherwise.

A similar Agreement has been made by U.K. with Pakistan. Under this, Pakistan will be credited with a sum of £20

million consisting of: (1) £10 million as working capital; (2) £6 million on capital account; and (3) £4 million being the balance from the accounts of the year 1947. The convertible sterling allowed to Pakistan amounts to £3.3 million or Rs. 4.2 crores.

VIII. REVENUE AND EXPENDITURE

Dominion of India

We are glad to be able to point out that the rough estimates made by us about the revenue resources of India and Pakistan on the basis of figures of previous years for Undivided India have proved substantially correct. Whereas we estimated that the Government of India would get a total revenue of Rs. 225 crores on the existing basis of taxation, the estimate of the Finance Minister is Rs. 230.52 crores.

It may be added that after meeting the various charges the amount available for nation building departments such as education, medical and public health and so on is only Rs. 21 crores which is about 8% of the total expenditure as against 7% estimated by us.

The probability of a cut in the capital expenditure to be given by way of grants by the Centre to the Provinces for post-war planning and development has now been removed. The Finance Minister has now reviewed the position and has agreed to keep the grants at the original levels, though it is expected that it will be spread over a somewhat longer period of time than before. The total grant to the Provinces in view of the separation is now estimated at Rs. 170 to Rs. 180 crores.

It may be of interest to the reader to have for the purpose of ready reference the estimates of revenue and expenditure under major heads as presented to the Assembly by the Finance Minister on 28th February, including additional taxation.

BUDGET ESTIMATES, 1948-49 (in crores of Rs.)

PRINCIPAL HEADS OF REVENUE	Rs.	PRINCIPAL ITEMS OF EXPENDITURE	Rs.
		1. Civil expenditure:	
1. Customs	81.75	(a) Rehabilitation of refugees ...	10.04
2. Central Excise Duties	34.00	(b) Food subsidies	9.91
3. Corporation Tax	39.50	(c) Payment of Interest, Pension and provision for debt redemption ...	43.86
4. Taxes on Income other than Corporation Tax	90.50	(d) Tax collection	8.98
5. Opium	1.40	(e) Planning and Re-settlement ...	3.15
6. Interest	1.17	(f) Grants-in-aid to Provinces ...	2.95
7. Civil Administration	5.12	(g) Expenditure on Mints and Nasik Press	2.20
8. Currency and Mint	9.40	(h) Expenditure on nation-building spheres...	20.93
9. Civil Works	.81	(i) Ordinary administration and Civil Works	24.27
10. Other sources of revenue	4.36		136.29
11. Net contribution of Posts and Telegraphs	.38	2. Defence	121.08
12. Deduct share of Income-tax revenue payable to Provinces	—37.87		
TOTAL ...	230.52	TOTAL ...	257.37

DEFICIT: Rs. 26.85

The new budget proposals are summarised below:—

(A) Relief in Taxation by (i) reduction in the rate of Business Profits Tax; (ii) reduction in Supertax by raising the limit at which maximum rates are applied; (iii) reduction of tax rates on companies with an income of Rs. 25,000 and less; (iv) exemption of donations to charities from taxation upto a maximum amount of 2½ lakhs; and (v) exemption from income tax of amounts paid as taxes to municipal property. The effect of the various reliefs in taxation and the changes in income tax would be a net loss of Rs. 6.46 crores. As against this, there will be a revenue of Rs. 4.5 crores by way of net contribution of railways to the general budget. These factors will raise the original deficit of Rs. 26.85 crores to Rs. 28.81 crores.

(B) Rs. 10 crores out of this deficit would be covered by taking direct to revenue the advance payments of Corporation tax, which were hitherto treated as deposits.

(C) New export duties on cotton cloth and yarn (excluding handloom materials), vegetable oils and manganese are expected to bring in a revenue of Rs. 3.3 crores. Additional import duties on motor cars, cigarettes, cigars and manufactured tobacco, and additional excise duties on cigarettes, tea, coffee and matches would raise the revenues by Rs. 13.4 crores, whereas the increase in Post and Telegraph rates would bring in Rs. 40 lakhs. The total revenue raised by additional taxation would be Rs. 17.72 crores, leaving a final deficit of Rs. 1.09 crores as shown below:—

	Rs.	crores.
Deficit on the existing basis of Taxation	26.85	
Relief in Taxation	6.46	33.31
Estimated additional receipts from Taxation, etc., as above	27.72	
Estimated contribution from railways	4.5	32.22
Net deficit ...		1.09

PUNJAB PARTITION